Chilton's

NOVEMBER 1980

DISTRIBUTION

FOR TRAFFIC & TRANSPORTATION DECISION MAKERS

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Solving More Freight Claims Mysteries

Distribution Career Patterns—1980

How Distribution Specs a Fleet

C-Lin
Sears
—Hamblin

CONTRACT CARRIAGE: WHERE THE ACTION IS

EXCLUSIVE
George Stafford Speaks Out

VOLUME 79, NUMBER 11

Chilton's

NOVEMBER 1980

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CARL W. LOCK, PUBLISHER
ESTABLISHED 1901 AS THE *TEAMSTER*
ART BURNS, CIRCULATION MANAGER

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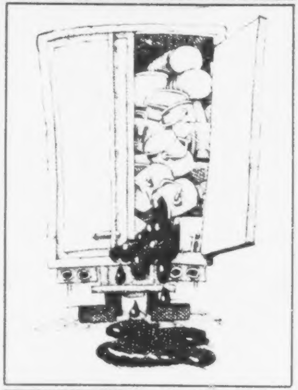

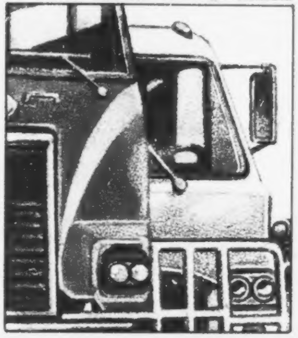

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EDITORIAL STAFF & CONTRIBUTORS

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EDITOR-IN-CHIEF

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JOE BARKS
SENIOR ASSOCIATE EDITOR

DENIS DAVIS
ASSOCIATE EDITOR

LEO ABRUZZESE
WASHINGTON NEWS EDITOR

EMILY BARR
ASSISTANT EDITOR

RUDY THIES
PRODUCTION COORDINATOR

CONTRIBUTORS
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EDGAR COUDAL
MICHAEL J. HIGGINS
JESSE C. JESSEN
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JEAN V. STRICKLAND

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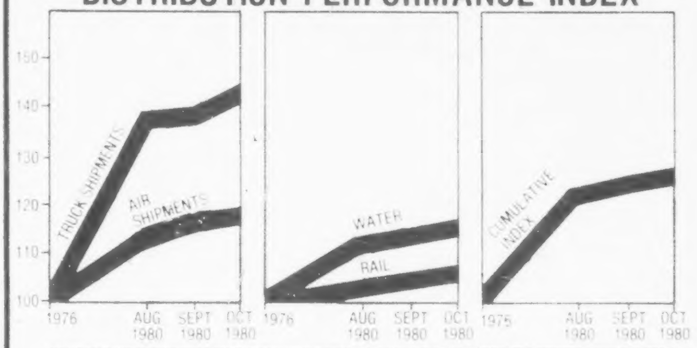


CATEGORY	1976	AUG 1980	SEPT 1980	OCT 1980
Truck shipments	100	133.0	132.0	138.1
Air shipments	100	114.2	114.1	113.2
Water shipments	100	113.3	114.0	113.4
Rail shipments	100	108.6	105.2	104.4
Cumulative index	100	120.0	123.2	123.0

"The bottom has finally come" was a statement recently made by a noted economist. He was, of course, referring to the long-awaited bottoming out of the recession. Consumer demand is again picking up with the recent rise in retail sales of 2.1 percent in the month of September. Inflation is dropping off as well with the annual rate moderating to 11.0 percent for the year. New car sales are also up and the sales of new houses are gradually increasing and should reach a level of 1.7 million new starts by the end of the year.

The upturn in the economy is reflected in the increased activity in the transportation sector of the economy. Distribution's Index for the month of November forecasts truck shipments to rise from a level of 138.1 in October to 142.0 in December 1980. Air shipments are also expected to advance from a level of 114.1 in September to 117.2 through December. Shippers are beginning to feel the effects of the increased consumer demand and are shipping more product. As one distribution manager stated: "Things are going full steam ahead, and the next six months look good. My firm is worried that rising inflation and interest rates may make this upturn only an aberration."

Bulk shipments are beginning to increase as indicated by the increased activity in water shipments. They are forecasted to rise from a level of 113.3 in August 1980 to 115.2 through December 1980. Rail shipments are also forecasted to expand to a level of 106.1 through the end of the year. In both categories, this is the longest continuous rise since the beginning of the year. One bulk shipper in the survey stated: "Our business has been miserable during most of 1980. We need a long sustained growth period to pull ourselves out. More realistically, 1981 is the year we make it or go out of business. We hope the orders keep coming in."

The overall improvements in the transportation sector were reflected in the general distribution index for the month of November which is expected to increase to a level of 125.5.

job. I can keep an open mind," he says.

The other shipper representative on the commission, Richard Warren, is affiliated with the National Association of Manufacturers, according to Edler. NAM has been a strong supporter of deregulation. (At press time, Warren was unavailable for comment.)

The remaining two industry representatives to the committee are from the ranks of motor carriers. Although their appointments were not officially announced by the end of October, it was almost certain that the two would be Michael Thometz and Steve Murphy.

Thometz is vice president and general manager of Badger Freightways, Sheboygan, Wis. Murphy is senior vice president and secretary of Yellow Freight System, Overland Park, Kan.

The Motor Carrier Act of 1980 directs that the remaining three commission members come from the House of Representatives and be chosen by Speaker Thomas P. O'Neill, Jr. (D., Mass.).

Though the Speaker had not announced his choices by the end of October, informed sources guessed that the posts would be offered to Rep. James Howard (D., N.J.), Rep. Bud Shuster (R., Pa.) and Rep. Peter Rodino (D., N.J.).

Both Howard and Shuster voted for the Motor Carrier Act of 1980; Rodino was absent on the day of the vote.

If the committee does include all of the above-mentioned senators and congressmen, it will number five members who voted the President's way on deregulation. Of course, such a bloc may not materialize and, if it does, it may not vote as a bloc. But those fighting for continued life for the rate bureaus are beginning to wonder if a five-vote blockade is not already built into the commission.

If all members of the commission approach the job the way James Edler says he does, then collective ratemaking will have its day in court.

"I expect a difficult job as a member of the commission," Edler says. "Many carriers and shippers contend this [present rate bureau system] is the only way in which they can operate. Other carriers and shippers disagree."

Edler predicts the major battle over rate bureaus will focus on LTL shipments. "Many people already agree that TL can move without collective ratemaking," he says. "LTL is where the argument will center." That, incidentally, is just how NASSTRAC views the upcoming skirmish.

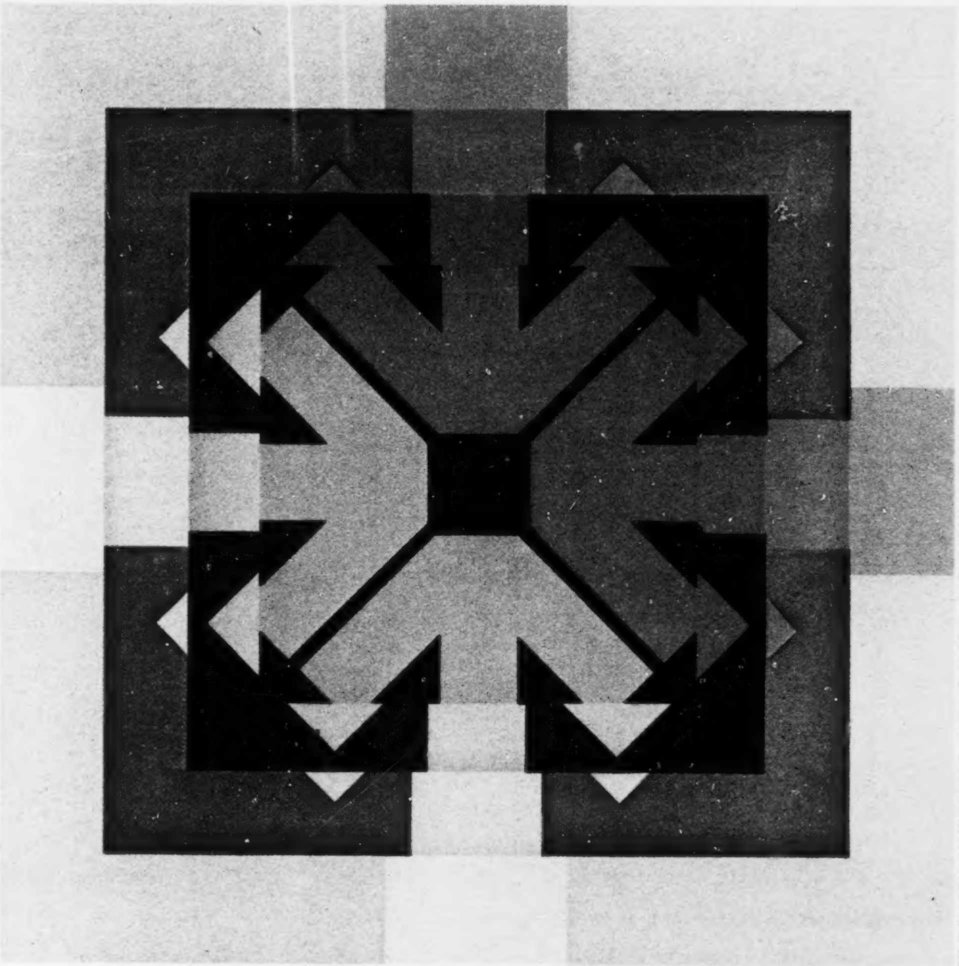
Although Edler expects the committee work to be a "difficult process," he says that deregulation has created a test laboratory which the commission will watch for indications about what should be done.

The carriers' use of the zone of ratemaking freedom will indicate how life without rate bureaus will be, Edler says.

No decision has been made about how the commission will collect information and testimony, though Edler suspects some sort of "quasi-judicial" hearing format will be used.

CORRECTION

In our September issue, we incorrectly reported that the Georgia Ports Handbook costs $5. A packet of information on Georgia's ports is available free.



SOURCE: YALE MANAGEMENT GUIDE TO PRODUCTIVITY, EATON CORPORATION

DISTRIBUTION CAREERS-1980

By **BERNARD J. LA LONDE, PH. D.**, Riley Professor of Marketing and Logistics, and **MARTHA COOPER**, Research Associate, both of The Ohio State University

The careers of distribution executives are following the trends established in the late Seventies as they move into the new decade of the Eighties.

So indicates the ninth annual survey of career patterns in distribution conducted by the Logistics Research Group at the Ohio State University.

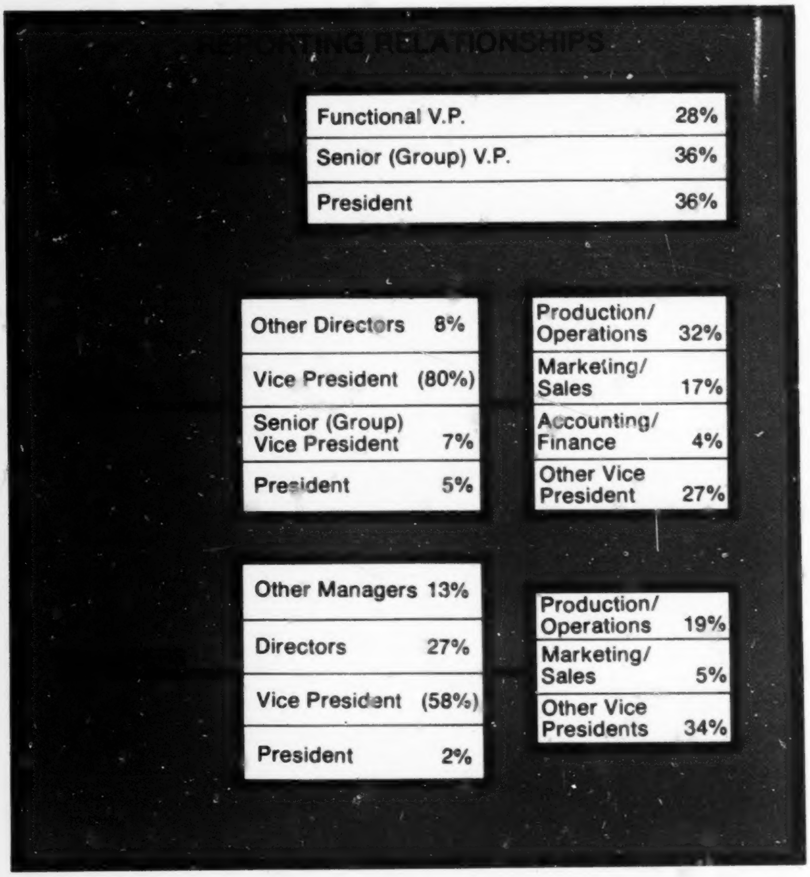
The survey results, presented at the eighteenth annual conference of the National Council of Physical Distribution Management, are based on the responses of 154 completed questionnaires. (Of those, 138 were usable and represent a response rate of 35 percent of the 441 surveys mailed to selected members of the NCPDM.)

This year's responses indicate that the distribution executive is attaining executive status at an earlier age. And evidence indicates that the distribution professional spends less and less time strictly in the distribution function.

Once again, respondents were asked to predict which factors will have the greatest impact on the corporate distribution function during the coming decade. And, in a new question, respondents were asked to tell how they "budget" the increases in energy costs they foresee during 1981.

Complete survey results are illustrated on the following pages.

Continued


REPORTING RELATIONSHIPS
Functional V.P. 28%
Senior (Group) V.P. 36%
President 36%
Other Directors 8%
Vice President (80%)
Senior (Group) Vice President 7%
President 5%
Production/ Operations 32%
Marketing/ Sales 17%
Accounting/ Finance 4%
Other Vice President 27%
Other Managers 13%
Directors 27%
Vice President (58%)
President 2%
Production/ Operations 19%
Marketing/ Sales 5%
Other Vice Presidents 34%

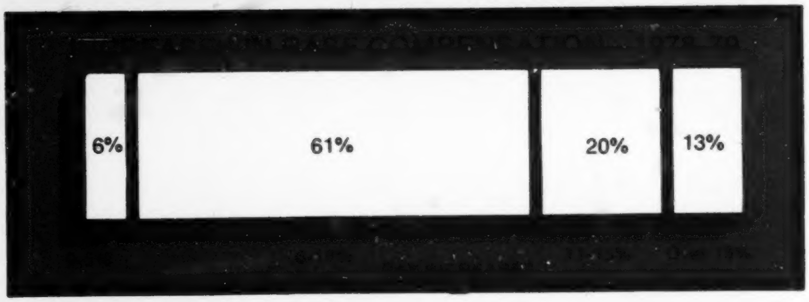
HOW DISTRIBUTION FITS IN

During the past several years, there have been some shifts in what appeared to be evolving patterns of organizational relationships.

Specific shifts are difficult to identify, but the findings seem to suggest that the distribution function is being linked with preproduction activities (i.e., purchasing, production planning, etc.) and a new form of total material flow organizational format is emerging.

Evidence for this trend is also supported by a tendency for those executives reporting to a functional vice president to report to an operations function.

COMPENSATION—1979
Vice President
$57,200
$47,500



PAY SCALES TIP MORE AT THE TOP

Among distribution executives surveyed, compensation increased the most for those at the highest echelons in their companies.

Average compensation levels for 1980 and increases in those levels from 1979 are illustrated here.

As indicated, overall salary at the vice presidential level was up substantially from 1979.

For those at director and manager levels, the increases were more moderate than those of the vice presidents. In fact, the rate of increase for directors and managers slowed in 1979-80 from the pace recorded in 1978-79.

Despite this, the range of increases—the percent of the respondents who got increases of under 5 percent, from 6 to 10 percent, from 11 to 15 percent and over 15 percent—was similar to the range found in last year's study.

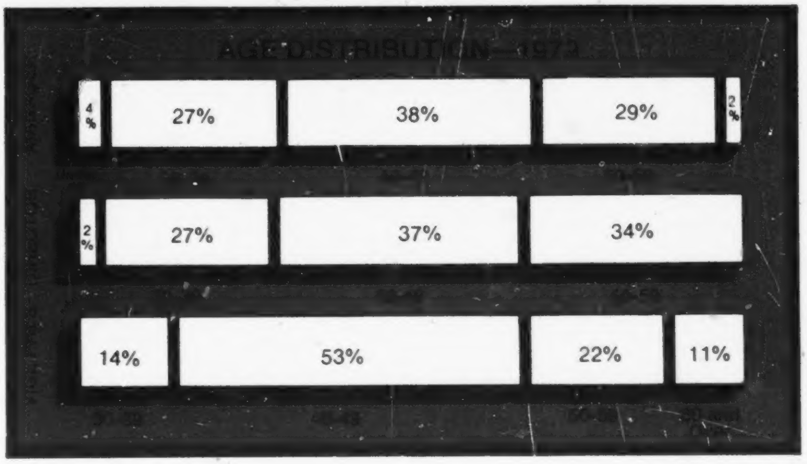
EXECUTIVES MOVE UP EARLIER

The age distribution of respondents showed the same patterns found in our other surveys of recent years.

The 40-49 age bracket continued to be the dominant age category of every job classification (manager, director, vice president).

The average age of vice presidents declined by three years, from 51 years to 48 years, according to our findings.

The evidence suggests that the distribution executive is attaining executive status at an earlier age than his functional counterparts (except for sales and marketing). The drop in the average age of executives at the vice president level was particularly noted in the 1980 responses.



LINE VS. STAFF ISSUE SETTLED

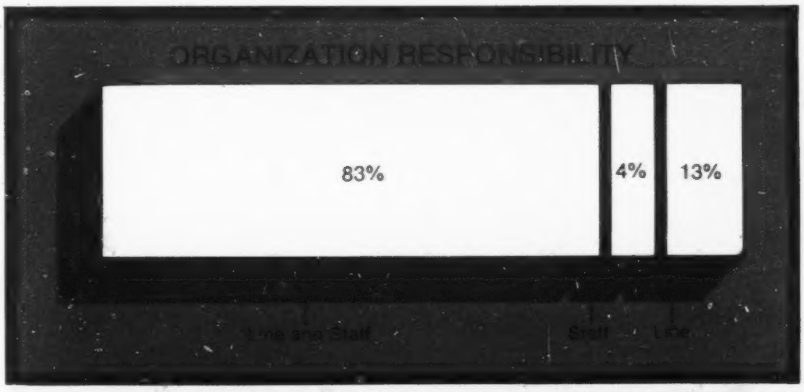
During the past four years, there has been some evidence of stability in primary organizational format of the distribution function.

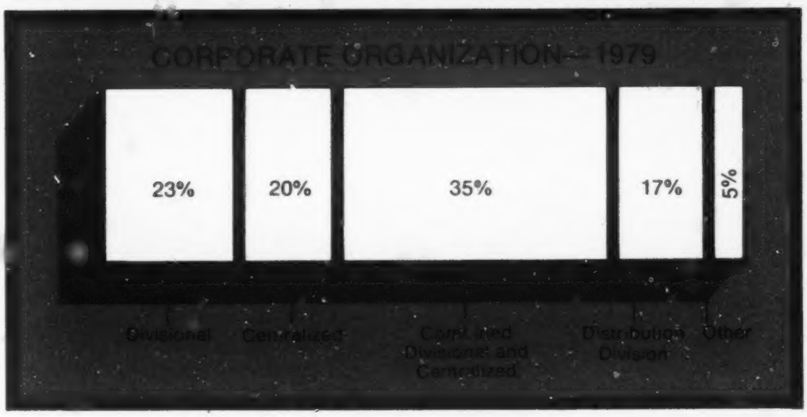
That is, approximately 80 percent of the respondents report both line and staff responsibility.

On the specific positioning of the distribution function, 35 percent of the respondents report a combined centralized and divisional organization.

Of the remaining respondents, some 20 percent report either a divisional organization, a centralized organization or a separate distribution division.

Since the early 1970s, there has been a shift away from positioning physical distribution as a staff function. This trend seems to be stabilizing, with a large majority of the firms opting for combined staff-line and staff-divisional types of organization.





THE FUTURE: A BUDGET FOR 1981

Respondents were again asked to polish their crystal balls for a look into the future. A new twist added to this year's survey was a request that respondents project budgets for their 1981 predictions.

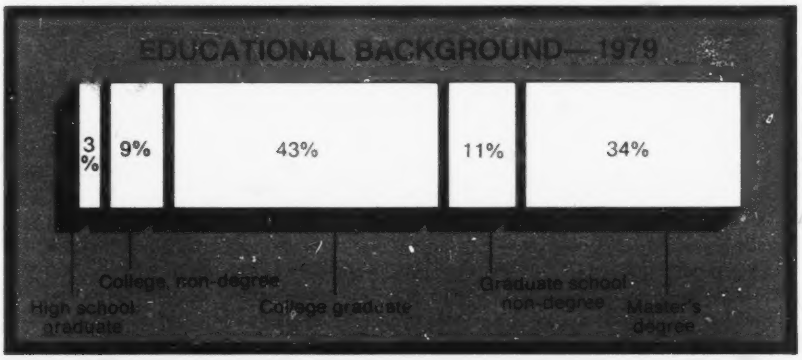
Respondents were asked to: "Identify the two major factors which will, in your judgment, influence the growth and development of the corporate distribution function during the next decade."

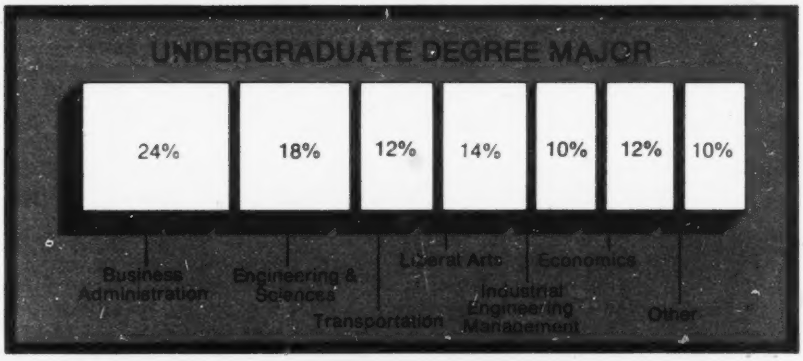
The most significant change in the responses from previous years was the new importance of "Energy Availability/Cost," "Economy" and "Regulation," in the list of important factors. This suggests that, increasingly, the concerns of the distribution executive are those factors which are external to the firm.

The new section added to the survey this year asked for a projected budget for 1981 and sought to determine attitudes toward key issues in distribution/transportation.

Overall, the respondents noted a budgeted increase in distribution costs of 13.8 percent. The most rapidly increasing budget component was fuel cost, which respondents predict will rise by 18.9 percent.

Respondents were asked to agree or disagree with a series of statements about current issues. Their responses are shown at the right.





EDUCATIONAL NEEDS—1979

Area	First Choice	Second Choice
Finance	31%	18%
Data Processing	7%	9%
Distribution Planning	9%	5%
Marketing	4%	13%
Cost Accounting	5%	4%
Inventory Control	5%	6%

COLLEGE KICKS OFF MOST CAREERS

Distribution executives laid the foundation for their careers by going to college, in the overwhelming majority of cases. This year's survey results differ little from those of the previous year and are a repeat demonstration of the importance of higher learning to the distribution professional.

Of this year's respondents, 97 percent had at least some college and 91 percent had at least one college degree.

Increasingly, undergraduate work is not enough for the distribution exec. Four out of every ten surveyed executives reported doing post-graduate work. And just over a third of them have earned a masters degree or higher.

As in past studies, business administration, engineering and science backgrounds topped the list of majors held by those surveyed.

This year, as in past years, the respondents were asked: "If you were offered an opportunity to return to school in the near future for three months and could take a custom-designed curriculum of your choosing, what would you study?"

As in past years, almost 40 percent of the respondents indicated a first preference for the financial area in answering the question. The remaining categories received similar responses to those made in the 1979 survey, except that the subjects of general management and logistics moved up in preference.

Distribution executives have attained a level of education which matches or exceeds that of their functional counterparts in their firms. In 1980, as in previous years, only a small percentage of the current distribution executives were formally educated in the physical distribution area or began their careers in distribution.

BUDGETED INCREASES IN DISTRIBUTION COSTS—1980-81

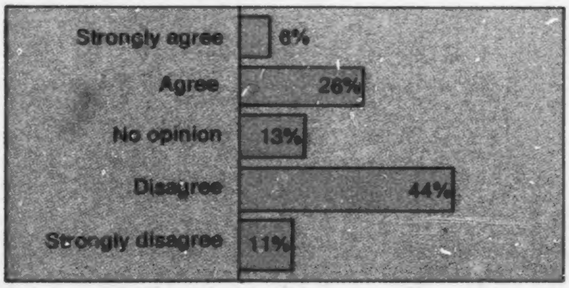
Category	Total	Food	Chemical
Rail	9.6%	11.9%	8.7%
Motor Carrier-LTL	13.6%	14.9%	12.4%
Motor Carrier-TL	10.0%	10.9%	10.5%
Warehousing	9.5%	10.7%	9.9%
Fuel	18.9%	22.1%	16.1%
Total	13.8%	14.1%	10.6%

FACTORS SHAPING THE FUTURE DISTRIBUTION ENVIRONMENT 1980-85

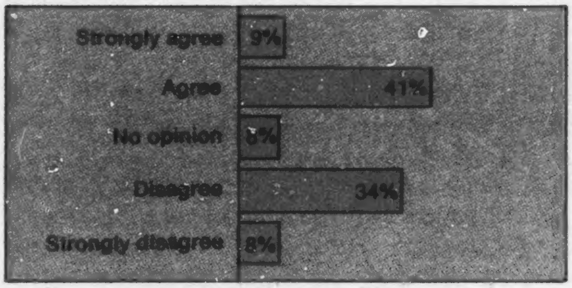
Factor	Most Important	2nd. Most Important
Distribution Costs	40%	21%
Energy Availability/Cost	13%	11%
Regulation	11%	13%
Customer Service	7%	11%
Economy	4%	9%
Top Management's View of Physical Distribution	4%	5%

WORK ROLE PERCEPTIONS CONCERNING OBJECTIVES AND PLANS

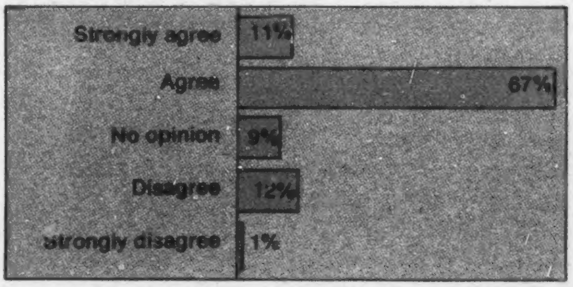
Deregulation will improve service levels in the U.S. Transportation System



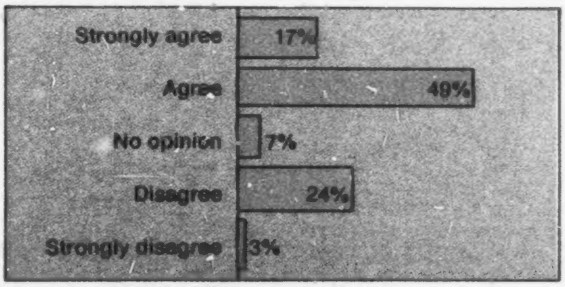
Deregulation of the transportation system will lower costs of distribution



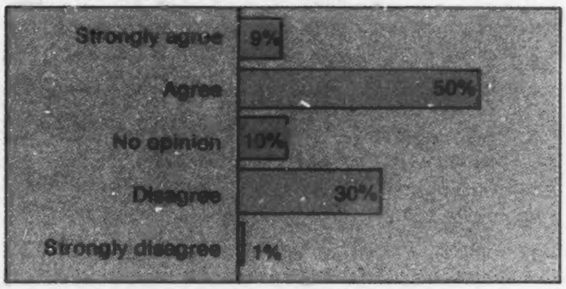
In the face of sharply increased costs, customer service levels will be lowered by most business firms in the 1980's



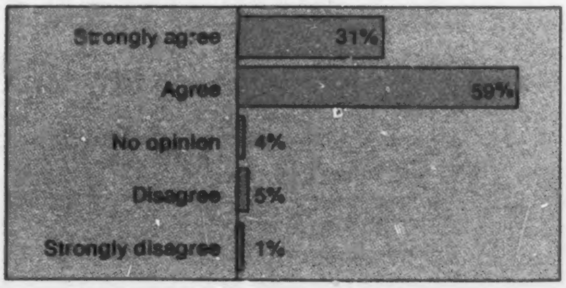
Given the current and forecasted economic climate, we will use more private carriage capability in the period 1980-85



Given the current and forecasted economic climate, we will use more public warehousing to meet and expand storage needs in the period 1980-85



In the 1980's, more firms will use inventory carrying costing for distribution decision making



CAREER PATTERNS *continued*

LESS TIME IS SPENT IN DISTRIBUTION

The primary trends in specific responsibilities of distribution executives have indicated a gradual shift from a narrow traffic and warehousing responsibility to a broader range of responsibility both within and outside the distribution area.

Managers spend some 30 percent of their time outside the distribution function. Directors and vice presidents spend approximately 40 percent of their time outside the distribution function.

Almost two-thirds of the time spent outside of the function is devoted to interacting with either the marketing or the production areas.

Directors and vice presidents spend some 20 percent of their total time in the transportation and warehousing areas. Managers spend almost 30 percent of their time in these areas.

The amount of time spent at all levels in "general administration" has gradually risen.

Increasingly, P.D. executives are taking over the reins of international distribution, according to the survey's respondents. The percentage who report having full international distribution authority has soared since 1977. ■

TIME EXPENDITURES ON DISTRIBUTION AND NON-DISTRIBUTION RELATED ACTIVITIES

DIRECTORS—1979

DISTRIBUTION (67%)	
Traffic	12%
Inventory	7%
Warehousing	10%
Other processing	6%
General administration	12%
Other	20%

NON-DISTRIBUTION (33%)	
Marketing	9%
Production	10%
Data processing	5%
Finance	6%
Other	3%

VICE PRESIDENTS—1979

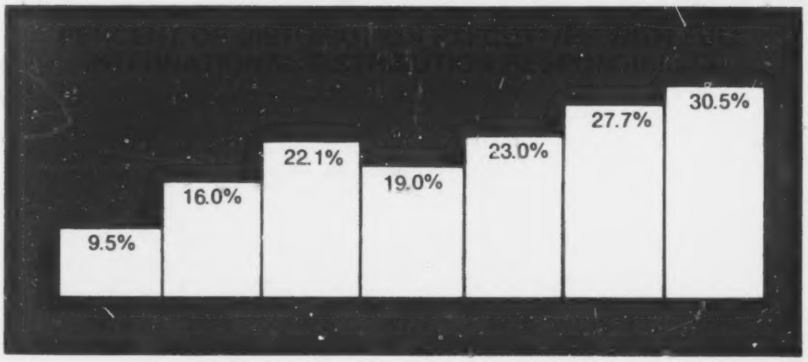
DISTRIBUTION (60%)	
Traffic	8%
Warehousing	8%
Inventory	4%
Purchasing	4%
Other processing	5%
General administration	18%
Other	13%

NON-DISTRIBUTION (40%)	
Marketing	17%
Production	8%
Data processing	9%
Finance	4%
Other	2%

MANAGERS—1979

DISTRIBUTION (72%)	
Traffic	14%
Warehousing	13%
Inventory	8%
Other processing	5%
Plant & warehouse	5%
International	4%
General administration	12%
Other	11%

NON-DISTRIBUTION (28%)	
Marketing	9%
Production	9%
Data processing	4%
Finance	4%
Other	2%



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Is Electronic Order Entry On Your Christmas List?

Distribution's ghosts of Christmas
Past and Future—A review of a century
and preview of coming years.

VOLUME 79, NUMBER 12

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Temple University

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AG Carriers, Inc.
STANLEY ROZYCKI
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HARRY SHRANK
Director, Distribution
FMC, Industrial Chemical Division

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quiz that accompanied the survey.

Even with the lure of a valuable prize to make you take the quiz seriously, and with the tip that the answers to all five questions could be found in the same issue of the magazine, more than a few respondents bit the dust on at least one question.

Question two, which asked you to identify the country that receives the greatest amount of U.S. exports, proved to be the biggest stumper. Some 19 percent of the contestants picked a country other than Canada.

Ironically, our neighbor to the north emerged later in the survey as far-and-away the leading recipient of the respondents' exports.

Here are the respondents' top five export destinations, (the percent of those shipping to these locations is in parentheses):

Canada (70 percent); United Kingdom (51); Japan (46); West Germany (45); Mexico (44); Australia (43); France (42); Venezuela (34); Brazil (33); and Belgium (32).

The correct answers to the quiz and the names of the six lucky winners of the Rand McNally globe and atlas can be found in the box on p. 7.

To all who participated, right or wrong, winner or also-ran, our thanks for your enthusiastic and thorough participation. You took a few minutes to give us the facts; by doing so, we should be able to return the favor in the months ahead.

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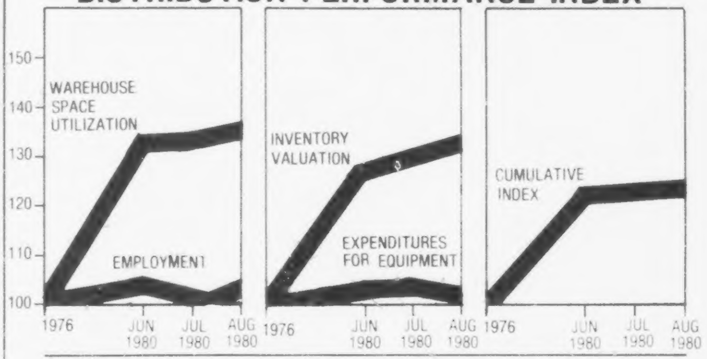

CATEGORY	1976	JUN 1980	JUL 1980	AUG 1980
Whse. space utilization	100	130.0	135.0	130.0
Employment	100	105.0	100.0	101.0
Inventory valuation	100	143.0	125.0	123.2
Expenditures for equipment	100	110.0	105.0	104.1
Cumulative index	100	125.0	120.0	118.6

The last quarter of 1980 will prove to be the finals of the most cyclical, wildly fluctuating year in the U.S. economic history.

During this seesaw year, one four-month period (March-June) saw interest rates rise to their highest level of the year, 20 percent, and fall to a low of 11 percent. During the year, inflation reached its highest level in U.S. history, increasing to over 18 percent in February. Then inflation dropped to the lowest point of the year, plunging to 11 percent.

In addition, consumer demand rose at a very rapid rate in the first quarter, but came to a screeching halt in the second quarter.

In the international sector, the balance of payments was positive during the first half of the year and negative during the third and fourth quarters.

As one economist put it: "1980 will not be a good year to forecast from. As a matter of fact, it should be eliminated from economic forecasting data bases. Economics is imprecise enough without there being a year like 1980 thrown into the economic forecasting pot."

In the distribution sector of the economy, the ups and downs were also present. In the first part of the year, inventory valuation increased markedly, reflecting the rise in consumer prices. In addition, warehouse space utilization also increased, reflecting the increased buildup in inventories.

In the second half of the year, prices began to moderate and inventory valuation also fell. The overall cumulative index rose from a level of 130.0 to 135.0 in June and plummeted to 131.3 in September.

In short, 1980 was a year of extreme uncertainty for the distribution manager. As one industry manager stated: "1980 reminds me of shooting craps in Atlantic City—you go in thinking you will be a winner, and you come out a loser."

For the final month of the year, the distribution industry should experience some moderation, with warehouse space utilization to increase from 132.5 in November to 134.1 in December. Inventory valuation should also increase slowly from a level of 130.3 in November to 132.5 in the final month.

The amount expended for equipment will moderate in the final quarter of the year, with the index dropping from 104.2 in November to 103.1 in December 1980.

Moderation seems to be expected for the first quarter of 1981. In addition, shippers are more confident than they were at the same time last year. In fact, optimism is running quite high among distribution managers as reflected by one respondent who stated: "Now that the election is over, I think my firm has a better idea of what is going to happen. Believe me, after what we had over the last four years, anything has got to be better."

QUESTION OF THE MONTH

Computers spent the Seventies sweeping through such departments as finance, accounts receivable and payable, payroll and production. Now it's the distribution department's turn.

Computers have already gained a foothold in distribution, and are expected to expand their roles in the department throughout the Eighties.

So in this first installment of "Question of the Month," we want to know how you are coping with the computerization of your department.

Turn to page 73 to give us your comments. Tell us what role you, the distribution professional, played in bringing computerization to your department. Explain how the software that runs computerized distribution functions was developed. Let us know how well — or how poorly — your computer specialists communicate with you. And tell us if you feel the computer is making your job harder or easier.

If this list doesn't cover your pet peeve or praise for the computer, feel free to write in your candidate. And, if you have a question or comment that's not related to the "Question of the Month," use the card to write it in, too.

Selected responses will appear in the first installment of a new DISTRIBUTION feature in January.

Chilton's

JANUARY 1981

DISTRIBUTION

FOR TRAFFIC & TRANSPORTATION DECISION MAKERS

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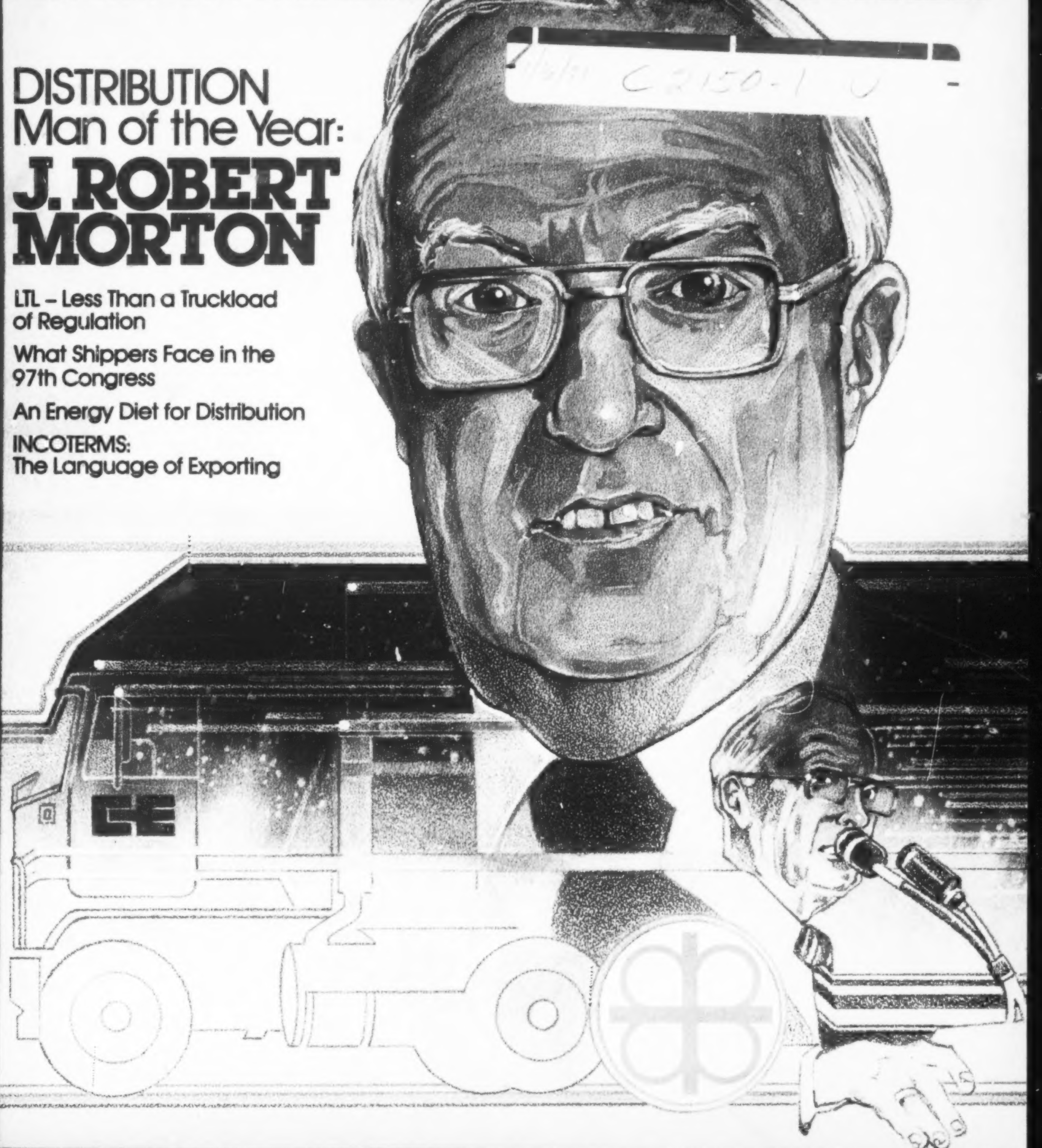
DISTRIBUTION Man of the Year: J. ROBERT MORTON

LTL – Less Than a Truckload of Regulation

What Shippers Face in the 97th Congress

An Energy Diet for Distribution

INCOTERMS: The Language of Exporting



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EDITORIAL STAFF & CONTRIBUTORS

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RECESSION AHEAD: HOW LONG, HOW DEEP?

There is little doubt that our economy is sliding into another recession that will be at least as deep as the one we suffered earlier last year. The villains are clearly high interest rates, unabated inflation and a growing credit crunch.

While the election of Ronald Reagan and other fiscal conservatives has sparked a flicker of optimism, everyone — including the incoming Reagan administration — seems to agree that there will not be a quick turn around. It is quite possible that interest rates will climb even higher, making credit almost impossible to obtain for all but the wealthiest (or most desperate) companies.

Interest rates are one of the direct determinants of inventory levels, so it is not surprising to find most shippers working from the slimmest possible inventory/sales ratios.

Our own DISTRIBUTION INDEX illustrates the degree of caution shippers have about building up inventory levels (See Index at right). Shipments by every mode, except rail, are decreasing from December to January. Rail shipments are increasing by such a small degree (0.3) that growth is practically flat.

As bad as things seem right now, however, the distribution industry, as polled by DISTRIBUTION, feels that 1981 performance will turn around by year's end.

Shippers were asked to project their shipments by mode through 1981. The results are tabulated below and compared with the December 1980 year end figures.

DISTRIBUTION INDEX YEAR END '80 and '81

Sector	'80	'81
Truck shipments	140.5	150.3
Air shipments	117.8	120.2
Water shipments	114.8	121.1
Rail shipments	110.2	113.2
Cumulative Index	126.9	129.0

Distribution managers are not the only ones with this feeling of longterm optimism.

According to the National Associaton of Purchasing Management, only 27 percent of member firms were at 90 percent capacity in late November. Around 50 percent of the member firms were at 90 percent levels in the same period in 1979. Despite this trend, a slight majority of the member firms (51 percent) felt that the first quarter of 1981 would see better times.

The question now is: Will 1981 be a carbon copy of 1980? If it is, the optimism of distribution managers, CEOs and others may be warranted. If our economic problems now are more serious than those of 1980, we all are in for a tough year.

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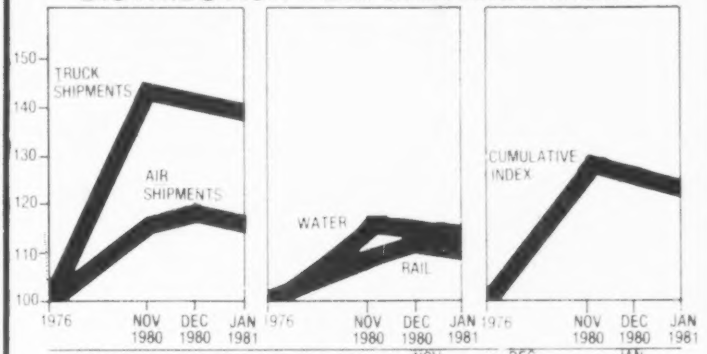

CATEGORY	1976	NOV 1980	DEC 1980	JAN 1981
Truck shipments	100	141.3	140.5	139.2
Air shipments	100	116.2	117.8	117.3
Water shipments	100	114.1	114.8	113.2
Rail shipments	100	109.5	110.2	110.5
Cumulative index	100	126.4	126.0	124.3

More of the same, is the short-term view of the economy for the next three months. Interest rates are again on the rise with the prime expected to reach 20 percent by the end of the year. Inflation will reach a seasonally adjusted rate of more than 13 percent for the year and consumer expenditures are to decline due to high cost of money. The fluctuations in the economy have frustrated many economists because it is difficult to predict with any degree of accuracy what the economy will be doing in the short term. Some economists have stated that inflation will be difficult to control with traditional monetary tools such as fiscal and monetary instruments. Also, many believe that inflation is built into the economy with the steady rise in oil prices and with the consumer expecting things to cost more and adjusting to the reality. If this is the situation, new and more innovative tools will have to be developed to control the economy. What they are remains to be seen, but the situation that occurred in 1980 cannot continue.

Needless to say, the uncertainty in the economy has manifested itself in the distribution sector. Distribution managers are resorting to reactive management rather than management by objectives. Things are difficult to control and foresee. This is illustrated in the rise and fall of truck shipments which began to increase in October 1980 and are forecasted to drop again in January 1981. The same is true for shipments by water, which rose to 114.1 in November and will decline to 113.2 in January 1981. In contrast, rail shipments rose to 109.5 in November 1980 and are expected to remain flat through January 1981.

Shippers seem to be taking a wait-and-see attitude toward the ups and downs in the economy. One shipper in the survey stated: "There is no need to get excited about what is happening. The important thing is to make a profit." In contrast, another stated: "I hope America isn't getting like those damn foreign countries who have inflation rates of 50 percent a year. It seems we can put a man on the moon, but we can't control inflation."

In summary, 1981 should be less volatile than 1980. Based on past performance, inflation should be no more than 10 percent. The real inflationary pressure for shippers in 1981 will be increases in fuel prices. The prime rate should decline and reach a yearly average of 11.5 percent for all of 1981. The year should be a relief from what shippers experienced in 1980.

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COMPUTERS TURN ON TO RATING AND ROUTING

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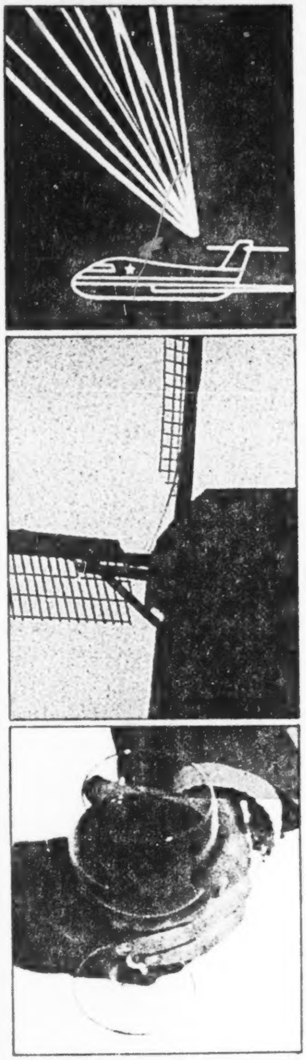

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The Cover: *CRT Screens are blinking on throughout distribution departments as computers compare modes and routes to find the best combination of service and price for each shipment.*

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RUDY THIES
PRODUCTION COORDINATOR

CONTRIBUTORS
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RATES FRAGMENT AS AIR CARRIERS TRY TO BAIL OUT

Air carriers around the globe are still in the financial tailspin that began last year, and shippers are hoping the airlines won't have to throw service out of the window to survive.

The troubles are the same for U.S. and international carriers: Fuel and labor costs are soaring, cargo-carrying capacity is rising, and shipper demand is down.

U.S. carriers attacked the problem by raising rates by more than 13 percent last year. International carriers did the opposite, slashing prices to—and through—the bone to gain volume.

Neither tactic is working.

While raising rates by double-digit percentages, U.S. carriers watched their domestic ton-miles dive by 5.8 percent from 1979 to 1980, according to the Air Transport Assn. (ATA). Their international volume slid 1.3 percent over the same period.

The ATA expects little, if any, growth in either domestic or international volume this year.

All-cargo U.S. carriers, whose statistics are included in the ATA figures, suffered "substantial losses" last year, according to Flight Research Corp., an aviation research and consulting firm.

The result of these losses has been an acceleration of "the trend of flight service reduction . . . and concentration of equipment on a few high-density cargo segments," notes Hal Adams, vice president-air cargo of Flight Research.

Nothing short of total economic recovery for the nation will reverse these trends, says Julius B. Kupersmit, president of Containair Systems, the air container manufacturing company.

"Unless the economy is booming," says Kupersmit, "wing-tip to wing-tip competition won't work when it comes to the balance sheet."

Carriers represented by the International Air Transport Assn. (IATA) suffered their worst year ever during 1980. While IATA-member volume did grow a sickly 5 percent, capacity grew by 8 percent to throw load factors into a sharp decline.

Volume will grow by 6 percent this year, the association predicts. "1981 will not be a particularly good year for IATA airlines," it adds.

Over the North Atlantic, excess capacity started a rate war last fall in which prices were cut in half. Those rates are due to expire in March. Most cargo managers publicly claim the discounts will not be renewed, but privately, they aren't so sure.

"The situation is just as bad as it ever was," says one U.S. cargo sales manager. "I just don't see how the carriers can refuse to renew the rates without losing business. Until capacity is reduced or until traffic increases substantially, the North Atlantic will be a buyer's market."

It's a different story on routes beyond Japan to Southeast Asia. Here, rates vary greatly from carrier to carrier. Overall, these rates shot up 30 percent in 1980.

Most recently, rates from Hong Kong to the U.S. jumped 14 percent. A 15 percent increase is pending on the U.S.-to-Singapore run.

The outlook is for more of the same. A national-flag carrier cargo manager expects another 17 percent rate hike eastbound from most points in Southeast Asia in the next few months.

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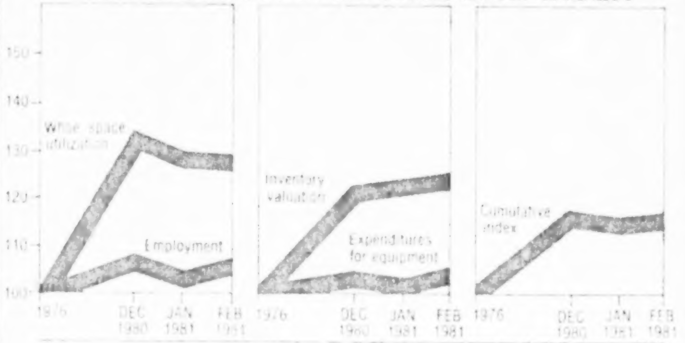

CATEGORY	1976	DEC 1980	JAN 1981	FEB 1981
Whse. space utilization	100	133.1	129.3	127.6
Employment	100	101.0	100.4	101.2
Inventory valuation	100	121.0	122.2	123.1
Expenditures for equipment	100	102.1	101.2	102.2
Cumulative index	100	117.3	116.2	116.9

Some economists have said that past economic phenomena take a long time to reappear again, but in the last few months of 1980 and the first part of 1981, the up and down interest rate cycle that occurred in April 1980 happened again. The prime reached the 21% record level and is forecast to recede very slowly. Consumer demand for all types of goods has fallen off and the inflation rate is gradually easing. Many industries are in serious trouble including auto and steel, and 1981 will prove to be a very difficult recovery period for them.

The general economic slowdown is reflected in the Distribution Index in February 1981. The amount of inventory stockpiled by industry is falling off, thereby requiring less warehousing space. This is reflected in the drop in warehouse space utilization from a high of 133.1 in December 1980 to its current level of 127.6 in February 1981. Employment in the distribution industry has likewise fallen off to a low of 101.2 in February.

Inflation peaked in the latter part of 1980 and should gradually drop in the first part of 1981. This is reflected in the drop in inventory valuation from 125.1 in July 1980 to 123.1 in February 1981. As one distribution manager in the study stated: "I certainly hope something eases in 1981. My paycheck gets smaller every month, not because I spend more, but because of the price increases."

The cumulative index will fall to its lowest level to 116.9 in February 1981. The decline reflects the downturn in activity in the distribution industry. One distribution manager commented: "I hope 1981 gets the profits of my firm on the plus side. Orders are down to their lowest level and employee morale is low as well. As far as I am concerned, anything has got to be an improvement."

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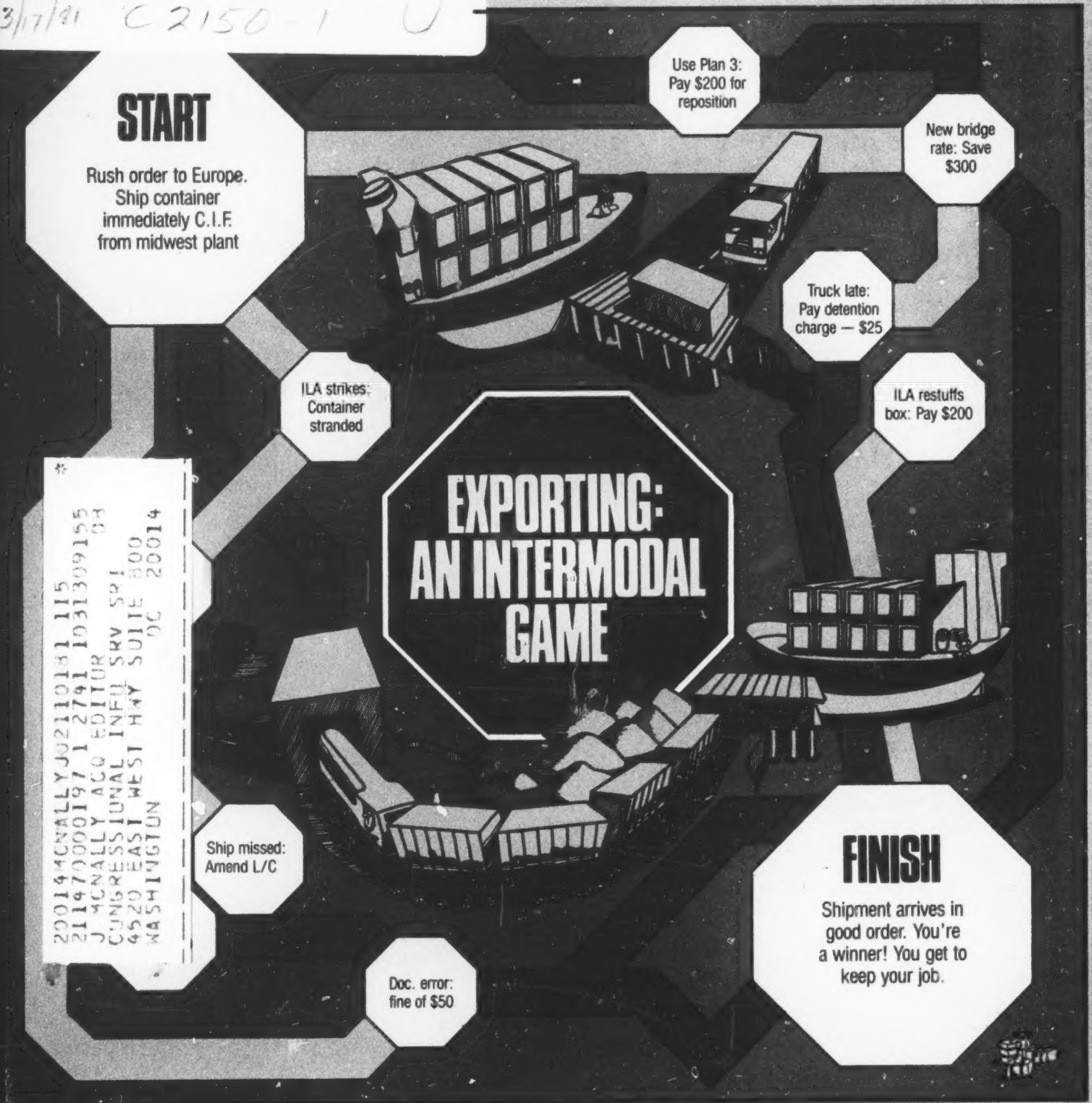
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Rush order to Europe. Ship container immediately C.I.F. from midwest plant
Use Plan 3: Pay $200 for reposition
New bridge rate: Save $300
Truck late: Pay detention charge — $25
ILA restuffs box: Pay $200
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EXPORTING: AN INTERMODAL GAME

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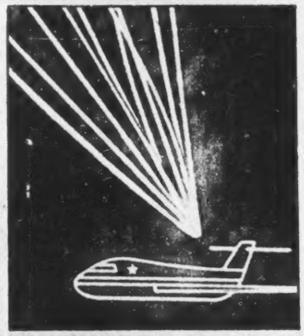

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The Cover: *The rules for the game of intermodalism are about to change again.*

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EXECUTIVE EDITOR
JOE BARKS
SENIOR ASSOCIATE EDITOR
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James R. Riley Professor of
Marketing & Logistics,
Ohio State University

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Associate Professor of Marketing,
Temple University

MICHAEL PREGMON, JR.
Executive Vice President
and General Manager
Ag. Carriers, Inc.

STANLEY ROZYCKI
Director of Transportation
Federated Department Stores

HARRY SHRANK
Director, Distribution
FMC, Industrial Chemical Division

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OCEAN RATES CAUGHT IN A 'DEVIL'S TRIANGLE'

Shippers trying to plot their ocean freight costs for the coming year are trapped in a pricing "Devil's Triangle."

The three sides of the triangle are maritime labor, foreign-flag carrier competition and federal regulations. The interplay of these forces makes it impossible to get a true bearing on the outlook for maritime shipping rates.

LABOR

Thomas W. Gleason, president of the International Longshoremen's Assn. (ILA), upset things for shippers when he ordered ILA members to stop loading or unloading Russian ships in U.S. ports. Driving the Russians out of some of the competitive trade routes gave marginal help to U.S. flag carriers, but rate wars continue unabated in the North Atlantic and Far Eastern routes.

When the Russians removed their ships to other routes after the ILA boycott, they caused some problems for U.S. shippers. Ralph Thayer, chairman of the National Industrial Traffic League's maritime committee, explains that the Russians have entered the European routes to the Far East.

Thayer, who is also manager of international transportation for Diamond Shamrock Corp., says the Russians' presence in Europe-to-Far-East trade has made carriers there cut prices by as much as 30 to 35 percent.

European and United Kingdom companies which compete with U.S. firms in Far Eastern markets are suddenly at an advantage because of the rate slashing, Thayer notes.

COMPETITION

Carrier competition on the North Atlantic and Far East route is still intense, despite the departure of the Russians. While this may be good for shippers who enjoy lower rates now, it won't do much for them over the long haul.

That's because the U.S. carriers' financial stability is threatened as they lose business to foreign-flag carriers whose costs are lower.

While shippers do get some benefits on trade routes where competition has driven carriers into price-slashing wars, they complain bitterly about other routes where there is stability.

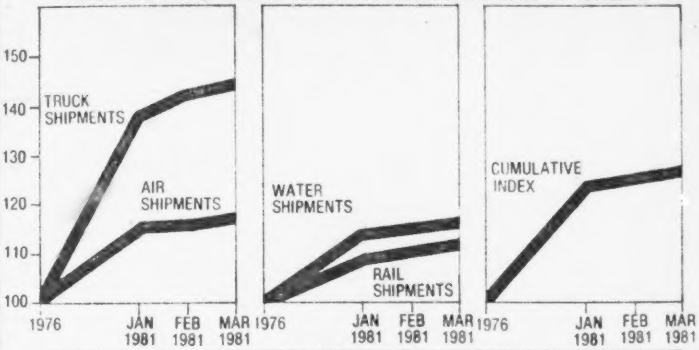
A prime example is the U.S.-to-Australia/New Zealand route. "There hasn't been any competition on that route for 60 years," charges Thayer. "Rates are very high to Australia."

REGULATIONS

U.S. carriers could well break out of the regulatory muck that they complain has cost them a competitive edge. The Reagan Administration was dead set (as of mid-February) on axing construction subsidies for U.S. carriers. (Ending operating subsidies has also been urged, but long-term contracts prevent any early action.) Such a move would only help shippers if carriers are freed to buy their ships abroad, where construction costs are much lower.

Floating above all of the competitive, regulatory and labor pressures on maritime shipping costs is the inexorable rise in fuel prices. Fuel surcharges of 20 percent or more are not uncommon in some trade routes, and there is no relief in sight.

DISTRIBUTION PERFORMANCE INDEX



CATEGORY	1976	JAN 1981	FEB 1981	MAR 1981
Truck shipments	100	139.2	141.3	142.2
Air shipments	100	117.3	117.9	118.0
Water shipments	100	113.2	113.6	113.8
Rail shipments	100	110.5	111.1	111.9
Cumulative index	100	124.3	124.9	125.1

Long-term economic forecasting has become an art these days, rather than a science. Time-honored remedies such as restriction of the money supply, deficit spending, tight credit and wage and price controls have all proven ineffective when pitted against modern-day stagflation.

The old rules don't work too well in distribution anymore, either. Deregulation has forced distribution managers to develop new management approaches, as continued inflationary pressures on their firms have made them reorder traditional priorities when selecting transportation for their firms. Now more than ever, distribution managers must obtain the best service at the lowest possible price.

Apparently, they're doing the job well. The DISTRIBUTION INDEX for March shows a slight increase in transportation activity among all modes. Truck shipments, which have been falling for the last three months, are now expected to rise to 142.2 in March from a low of 139.0 in January (1976=100).

Air shipments are also expected to increase to a level of 118.0 in March, after falling to a 1980 low of 116.0 last November. As one shipper in the survey stated: "While air freight costs are skyrocketing, you still can't beat the service, and that's why my firm uses them."

Water and rail shipments are also expected to increase. Water movements, while rising more slowly than the other modes, have shown a steady increase in the last three months, and will reach a level of 113.8 in March. Rail movements are also increasing and will rise to 111.9 in the first part of 1981.

In summary, the distribution industry will experience something of a recovery in the first quarter of 1981, with the Index rising to a cumulative level of 125.1. As one distribution manager stated: "It's time to think of new ideas and new ways to solve old problems. We have to keep pace, or we won't survive."

MAILMAN BITES SHIPPER?

The postal workers aren't the only labor group putting the bite on shippers this year with a threatened strike. Airline employees, railway workers and longshoremen all have touchy labor negotiations coming up soon. Even if strikes can be averted, keeping the peace with transportation labor may cost shippers a leg and an arm.

By JOE BARKS, Senior Associate Editor

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The people who fly, fix or route the nation's aircraft threaten to ground the planes whenever they feel the need to make a point. Railroad workers, their appetities whetted by beefed-up railroad profits, want a piece of the fatted calf. Even longshoremen, who now get out the tape measure whenever a new containership arrives at port, are grumbling about reopening a contract.

Shippers will have to keep an eye on all the traditional fronts as they tiptoe through the transportation labor minefield in 1981. But the bombshell that could really blow their shipping patterns to smithereens may be lobbed by a relatively new nemesis: postal workers.

Any work stoppage by those who move the mail is in clear violation of federal law. And the postal workers themselves insist that they aren't the ones starting all the strike rumors. But still, some observers detect a disturbing militancy developing among the leadership of the various unions that represent the 750,000 United States Postal Service

Airlines: Prepare for Landings

Predicting that some airplanes will be grounded by strikes sometime during the year is only slightly more risky than forecasting rain for Seattle. The industry's labor structure is so fragmented, with so many special interests dealing with so many individual employers, that disputes arise almost as frequently as planes out of O'Hare. And the odds are good that some of these disagreements will heat up to the point where some planes will get some unscheduled maintenance.

The fun starts this month, when the Professional Air Traffic Controllers Organization (PATCO) locks horns with the Federal Aviation Administration (FAA) over a new contract that is to take effect on the 16th. Almost every month thereafter, some airline will be trying to hash out an agreement with some faction of the unions that bargain for the pilots, mechanics, flight attendants or other air-related laborers.

The Reagan Administration appears to be adopting a conciliatory stance toward the various air unions, and this may temper the urge to strike somewhat. Former Piper Aircraft chairman J. Lynn Helms replacing the belligerent Langhorne Bond as FAA administrator should also help tone down things.

Still, the knowledge that a shutdown would cost affected airlines millions of dollars each day will provide an awfully tempting strike incentive to any union that finds it's having a hard time making carriers see its point. And leadership at some of the unions, particularly PATCO, is decidedly more combative than it has been in past rounds. Finally, the issues at hand (two vs. three pilots, safety in the skies, shorter work weeks and the usual wage demands) are the kind that can kindle emotions and heat up job action fever.

"There's just too much at stake (to believe strikes can be avoided completely)," one shipper concludes. Therefore, a traffic manager sending out air freight near the end of the month—any month—should have a back-up option at the ready. It'll be a rare last day of a month this year that won't mark the expiration of somebody's contract with someone somewhere. Particularly sticky times could be the end of October and the end of December, when the machinists will be going to bat against various lines.

Maritime: Keep an eye on ILA

You knew it was all too good to be true. In the spring of 1980, Thomas Gleason and the International Longshoremen's Assn. (ILA) agreed, *ahead of schedule*, to a new three-year contract that took effect September 30. Shippers' fears of a messy and disruptive fall were thankfully dispelled.

The new contract, however, contains a provision that allows for renegotiation if an adverse decision is made on the infamous 50-mile container rule that helps protect the ILA's interests at Gulf and Atlantic ports. And already, Gleason is upset over actions taken by the National Labor Relations Board which, the ILA feels, jeopardize the rule's very existence.

The dispute promises to be long and drawn out, and shippers are assured under last year's contract of at least 60 days' notice before a strike, if indeed it comes to that. But the ILA's stormy reemergence in a year it was supposed to disappear has nonetheless chopped up the waters in what otherwise seems to be a calm maritime labor front.

Two contracts are officially on the docket this year. The National Maritime Union (NMU) and other splinter groups will be dickering with the offshore steamship lines to come up with a new pact by June 16. And out West, the International Longshoremen's and Warehousemen's Union (ILWU) will need a new contract by July 1.

The NMU negotiations are expected to be harmonious simply because both sides will be bargaining from a position of weakness. The unions know they're lucky to have any kind of work on the lines that are under constant pressure from both foreign-flags and non-union domestic vessels, and so they're likely to hold down their wage and benefit demands in return for "manning" assurances. "We know their problems, and they know ours," says a source on the labor side who characterizes the likelihood of a strike as "next to nil."

ILWU spokesman Danny Beagle points to a 30-year history of labor peace as an indication that his union should be able to reconcile its differences with West Coast shippers without any disruptions. "We have a pretty good track record and are planning to negotiate in good faith," Beagle says. "If I were a shipper, I wouldn't be worried."

However, while the ILWU has no official connection with the ILA and is not affected by the 50-mile controversy, some observers voice concern that ill-timed unrest in the East could spark some brotherly sentiment in the West that might make longshoremen there a tad less agreeable.

All in all, though, it appears ocean shippers will be free to spend most of their time watching the Gleason show (which has been spiced up even more by recent accusations of an ILA-Mafia connection). If nothing else, it promises to be entertaining.

(USPS) employees.

If a new agreement hasn't been reached when the present contract expires July 20, shippers stand to lose a lot more than a few parcel posts. As one fearful traffic manager wonders: "How would we get our orders, our bills of lading? And where the hell would the money come from? It would be quite a serious problem."

Even if all the contracts on the docket this year (see chart, p. 70) are renewed without any work stoppages, shippers will still retain a vital interest in the outcomes. Wage and working-condition concessions granted to the laborers will certainly be passed along to those who buy transportation.

But of greatest and most immediate concern to any distribution manager, of course, is the possibility of disruption of the normal flow of goods. To help determine whether shippers should be ready to do some quick rerouting later this year, here's a closer look at the likelihood of strikes in all the modes that will be renegotiating labor pacts in '81:

Rail: A Long and Winding Road

More than a few rail shippers have already been shaken up this year by reports that March 31 will mark the expiration of the current labor agreement between the nation's Class I railroads (except Conrail) and all the various unions representing those who've been "workin' on the railroads."

But there's no reason to worry that rail shippers could be made to feel pretty foolish come April 1. First of all, the reports of the old contract's death are greatly exaggerated: March 31 does not mark the date that it terminates, but rather the time that it should be "reopened."

"There is no foreordained deadline," reports Charles Hopkins, chairman of the National Railway Labor Conference (NRLC) which will do the negotiating for the railroads. "The (March 31) date merely means no change could become effective any sooner than April 1."

The way those close to the scene are talking, it may be *next* April 1 before anything happens. Rail negotiations have always been conducted at a pace that's made snails look like springers, but this year looks like it could be especially somnolent.

Inducing extra delays is the unusual amount of discrepancy between the demands of the 13 different unions that will be occupying labor's side of the table. Hopkins says the various unions (United Transportation Union, Brotherhood of Locomotive Engineers, Brotherhood of Railway and Airline Clerks and many others) have differed before. But this time, he agrees, their demands are "distinctive for their heterogeneity." What makes this all so surprising is that the issues at stake are pretty basic—wages, pensions and other benefits.

The unions say they'll have their acts together when it comes time to finally get down to business. If and when they do, the chances of the bargaining breaking off and service shutdowns developing are seen as slim. The unions will have plenty of the fatter 1980 railroad earnings reports in hand, to be sure, and they'll demand their share of the action. Railroads, however, seem inclined to acquiese to a degree that will be satisfactory, as long as they are given productivity assurances in return.

"There is no foreseeable danger to continuous service," Hopkins asserts. There doesn't seem to be any reason to doubt him, if only because there's so little unanimity about anything right now among rail unions that aren't exactly militant to begin with.

USPS: Please, Mr. Postman . . .

News item: Postmaster General William Bolger, saying he will not tolerate a work stoppage, urged postal employees to "pursue a policy of moderation" in collective bargaining due to begin in April . . .

"Nobody over here's talking strike," insists Dan Driscoll of the American Postal Workers Union (APWU), "and it's irresponsible as hell for anyone to suggest that's our position. It's just not. That would be an awful foolish way to get into negotiations—you don't go in there rattling sabers.

"The only person talking strike is the Postmaster General," Driscoll charges. "Every time he gets three people together, he says he won't stand for one. But he can't be reacting to anything we've said, because that (kind of talk) sure isn't coming from here."

Indirect dialogue of this sort has been flying back and forth for months now between the two sides that will have to come up with a new postal contract by July 21. And the excitable, finger-pointing tone to it all is what has many observers worried that the negotiations will be volatile. As one Washington watcher says: "There sure is an unusual amount of posturing going on."

Not all the talk amounts to rhetoric, either. Delegates to recent conventions of two of the four unions that will be involved in the bargaining have already adopted "no contract, no work" mandates, even though a strike would violate federal law.

The unions are still smarting over the outcome of the last round of negotiations, in 1978. That dispute had to be settled by an arbiter, and the workers feel they were given short shrift when the decision was finally handed down.

At that time, the president of the APWU—the largest of the four unions representing USPS employees—was Emmett Andrews. He has since been replaced by Morris Biller, who has already said and done enough to earn a "militant" label in press and government circles.

"I don't know if (the new leadership) is militant," the APWU's Driscoll says. "You can use any word you want, but that's kind of a pejorative. But there's definitely strong, new leadership, and it's unified leadership."

Driscoll says the big issue, in addition to demand for substantial wage increases, will be safety in the workplace. "Our people have had the highest on-the-job accident rate of anyone, including the military," Driscoll claims. "We've had three fatalities in the last 16 months, and thousands and thousands of injuries. We're just not going to stand by and let our people continue to get

Continued

DISTRIBUTION'S 1981 LABOR SCOREBOARD: STRIKE ONE, STRIKE TWO, STRIKE THREE?

Industry	Union(s)	No. of Workers Involved	Contract Renewal Date(s)	Likelihood of Strike(s)
Airlines	Air Line Pilots Machinists, Flight Attendants, Air Traffic Controllers and others	100,000	Periodically throughout year, beginning March 15	Very Likely
Railroads	Transportation Union, Locomotive Engineers, Railway Clerks and others	400,000+	April 1	50-50
Maritime	Seafarers, Maritime Union, Masters, Mates and Pilots	31,000	June 16	Unlikely
	Longshoremen and Warehousemen (ILWU)	11,500	July 1	Unlikely
Postal Service	Postal Workers, Letter Carriers and others	750,000	July 21	Likely

chewed up in machines."

The combination of a highly charged emotional issue such as safety and the unions' determination to get their fair share of wages this time around is what has many observers convinced that the confrontation is sure to develop into a conflagration. Driscoll, of the APWU, noting that the showdown is likely to be labor's first big test of the new Administration's penurious principles, will say only that it "will be difficult for certain."

Even with so much advance warning that a strike is likely, however, many shippers feel completely helpless in this instance. A shutoff of the mail is not something that could be fixed by detouring into other modes, they note.

"It would be fantastically difficult, and there would be little we could do," says one large-volume shipper in the retail industry, which would be hit especially hard. "You could try to develop a system through the airlines to deliver (needed documents) to customers and carriers, or you could try to use corporate (word processing) equipment. But that could at best only take care of the emergencies. You could never get all the mail delivered—it would be physically impossible.

"What we're hoping is that (a strike) would only last three or four days," this shipper sighs. "Then it wouldn't be too much of a problem. But if it lasts for a whole billing period, we'd really be hurt."

Other fronts: Wait until next year

As if there isn't enough to occupy a labor-watching shipper this year, an eye should also be trained peripherally on developments that could set the stage for future disputes.

Foremost on this list is the Teamsters' convention that will be held in Las Vegas this June. What happens there should provide an early line on the prospects for trouble when the truckers' Master Freight Agreement comes up for renewal in the spring of 1982.

There have been some rumblings that the Teamsters, worried about the way deregulation is crumbling their power base, would press to renegotiate the Master Agreement this year. But it now appears that the union will wait to see what its leadership looks like coming out of Las Vegas.

If ailing president Frank Fitzsimmons decides to run for another term, he will probably be re-elected. If he is, whoever emerges in line to succeed him will be vitally important. If he isn't, whoever takes over the reins could represent a whole new shift in Teamster thinking.

The general feeling is that the Teamsters are going to have to make some concessions to deregulation somewhere along the line if they are to keep the trucking industry unionized to any degree. Las Vegas should send out the first strong indications of just how much they're willing to bend.

Also worth watching this year will be efforts of bus line personnel to unionize. Their success, combined with whatever measures of deregulation are adapted for the industry (see p. 13), could be of some consequence to shippers.

Finally, perhaps the most crucial consideration for any labor watcher will be the direction taken by the economy. If the Reagan Administration's budget-slashing, tight-fisted remedies prove successful, labor's need, or right, to make substantial demands will be seriously undermined.

If the new moves only stoke up inflation further, however, fuel will be thrown on the unions' fervor and it will be awfully tough for management, either in government or the private sector, to continue to preach sermons of sacrifice. ■

Chilton's

APRIL 1981

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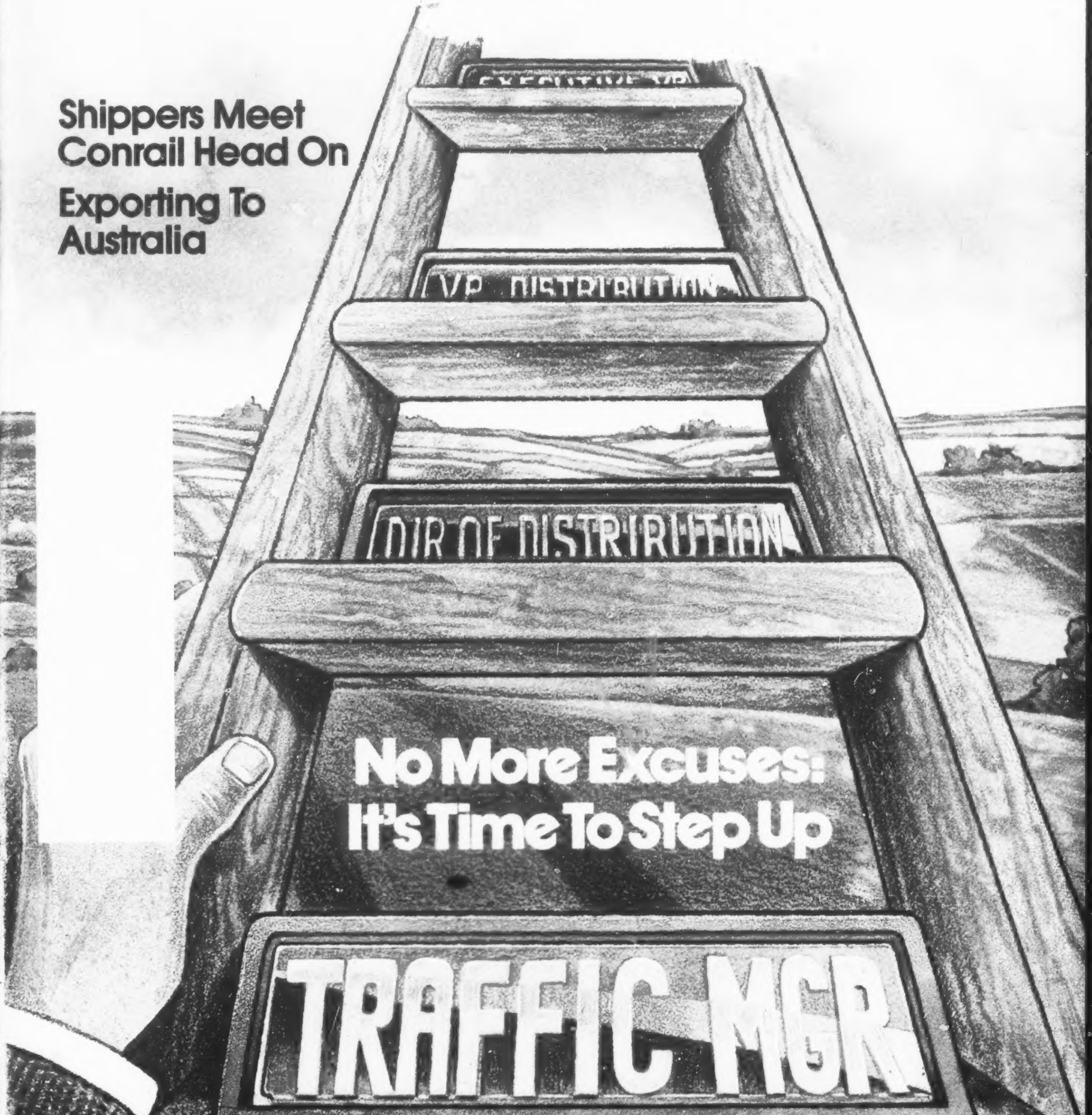
Shippers Meet Conrail Head On

Exporting To Australia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No More Excuses: It's Time To Step Up

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CARL W. LOCK, PUBLISHER ESTABLISHED 1901 AS THE *TEAMSTER* **CLIFF MITCHELL**, CIRCULATION MANAGER

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JESSE H. NEAL
EDITORIAL
ACHIEVEMENT
AWARD

Tribute . . . Though a pat on the back conveys the personal warmth and sincerity of congratulations for a job well done, there is also a need for a permanent reminder.

On March 5, our entire editorial staff—Foster, Dulaney, Barks, Davis, Barr and Thies—assembled in New York City—along with yours truly—to receive the "Pulitzer Prize" of business publishing, American Business Press' Jesse H. Neal Award.

The yearly Neal competition honors 12 editorial articles or series of articles and 3 entire special issues, in 3 classifications as the best of the best.

I'm proud to add my tribute to a hell of a group of dedicated, talented people and to their joint effort: October 1980's issue of Distribution, "The Export Decision, Distribution's Vital Role."

Carl W. Lock
Publisher

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The Cover: *How many rungs on your personal career ladder? With distribution becoming a more vital function every day, the sky is now the limit.*

EDITORIAL STAFF & CONTRIBUTORS

THOMAS A. FOSTER
EDITOR-IN-CHIEF
TOM DULANEY
EXECUTIVE EDITOR
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SENIOR ASSOCIATE EDITOR
DENIS DAVIS
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LEO ABRUZZESE
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ASSISTANT EDITOR

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COPY EDITOR
RUDY THIES
PRODUCTION COORDINATOR

CONTRIBUTORS
COLIN BARRETT
EDGAR COUDAL
MICHAEL J. HIGGINS
JESSE C. JESSEN
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EDITORIAL ADVISORY BOARD

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Consultant

DR. BERNARD J. LA LONDE
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Ohio State University

DR. RICHARD A. LANCIONI
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MICHAEL PREGMON, JR.
Executive Vice President
and General Manager
Ag. Carriers, Inc.

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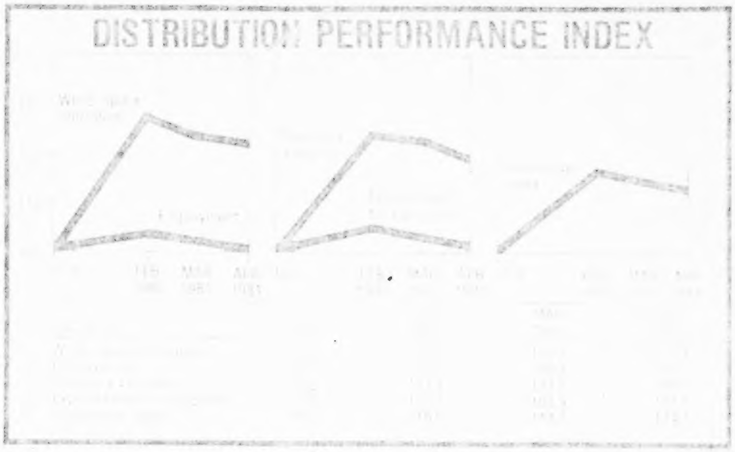
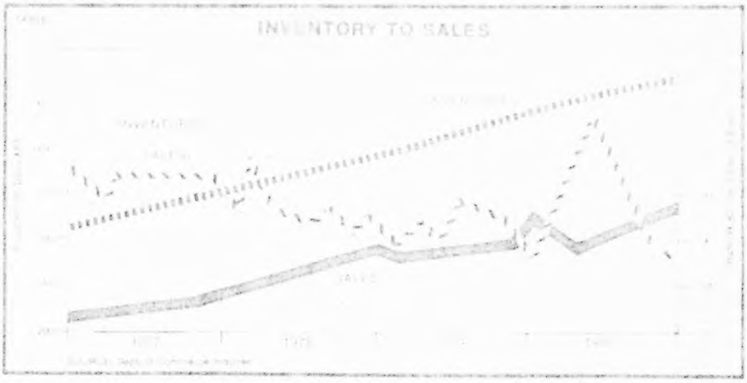
ECONOMIC ADVICE IS 'TAKE CARE'

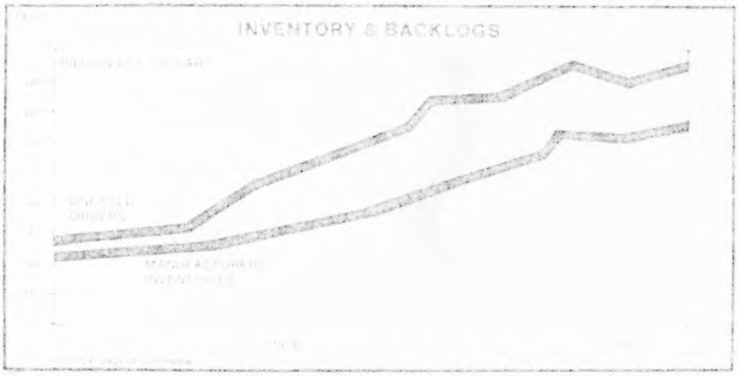
The economy for the first quarter of 1981 has been characterized by some gloom and some promise. The gloom is marked by further increases in unemployment and the continued declines in consumer demand. The distribution industry has reflected these declines with decreases in expenditures for new equipment, cut backs in work forces and reductions in inventories. The *Distribution Index* for April shows employment dropping from a level of 101.2 in February to 100.1 through April 1981. This is its lowest since October 1978.

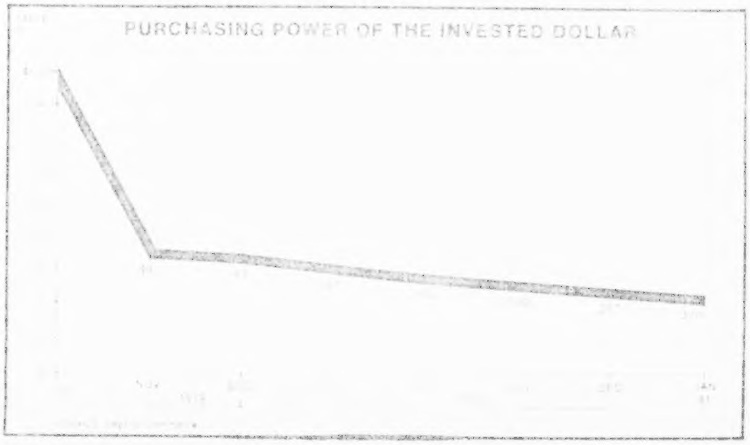
The promise coming out of the first quarter of 1981 is the cautiousness of distribution management in keeping track of inventories. As shown in Table I, manufacturers' inventories have decreased to less than 1.3 months of sales. This same trend is demonstrated in the *Distribution Index* warehouse space utilization category which reports the level dropping from 127.6 in February 1981 to 122.3 through April 1981. In Table II, the same trend is reflected in another way with the gap between unfilled orders and manufacturers' inventories getting wider each year. For example, in 1977, the gap averaged only $20 billion. In 1979, the gap increased to $55 billion and in 1980 rose to more than $60 billion. For the first part of 1981, the difference will increase to $62 billion.

The inventory investment dollar available to the distribution manager has shrunk dramatically over the years. In 1979, the purchasing power of the dollar was $.44. In 1980, it fell to $.38 and in the first part of 1981, it decreased to $.37. With this erosion, distribution managers have had to continue to spend more to restock their inventories forcing them to take a more restrictive position on inventories. Throughout the first part of 1981, this trend should continue. The overall impact is illustrated in the Cumulative Index which will fall to a level of 114.1 through April 1981. The FORECAST by word for the 2nd quarter of 1981 is *CAUTION*.









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MAY 1981

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FOR TRAFFIC & TRANSPORTATION DECISION MAKERS

A PLANE FOR ALL REASONS-BUT NOT FOR ALL SHIPPERS

CHARTERS: DEAD OR ALIVE?
A TRUCKLOAD OF TROUBLE AHEAD
TAB UPDATE
COMPUTER DATA BASE

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VOLUME 80, NUMBER 5
MAY 1981

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CARL W. LOCK, PUBLISHER
ESTABLISHED 1901 AS THE *TEAMSTER*
CLIFF MITCHELL, CIRCULATION MANAGER

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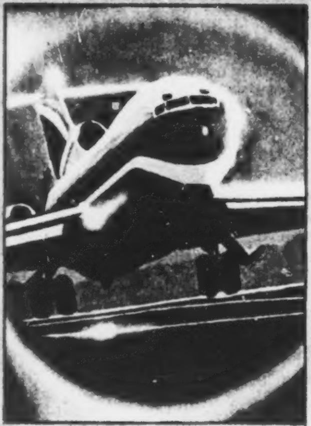

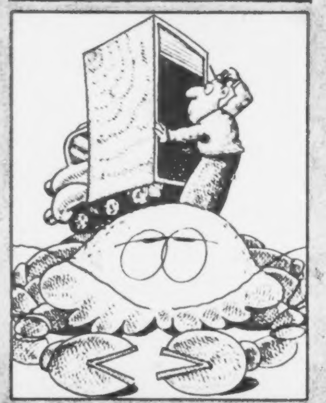

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"SLOW BUT SURE" SETS THE PACE

"Slow but sure" seems to be the nation's recovery rate after taking Reagan economic medicine. Inflation has fallen off slightly to a seasonally adjusted rate of 14 percent. Consumer prices and interest rates have decreased slowly in the past two months.

Coupled with price reductions are moderate increases in factory shipments to $161 billion in January 1981, up from an adjusted $159 billion in December 1980 (Table I).

Retail sales rose to an adjusted $85.8 billion in February from $85.0 billion in January (Table II). Both increases, although small, reflect the ever-so-slow rebound of the economy.

The moderate increases in factory shipments and retail sales are reflected in the gradual increases in the transportation sector of the distribution industry. Air shipments rose to an index level of 119.2 in April and will moderate slowly to 118.2 in May.

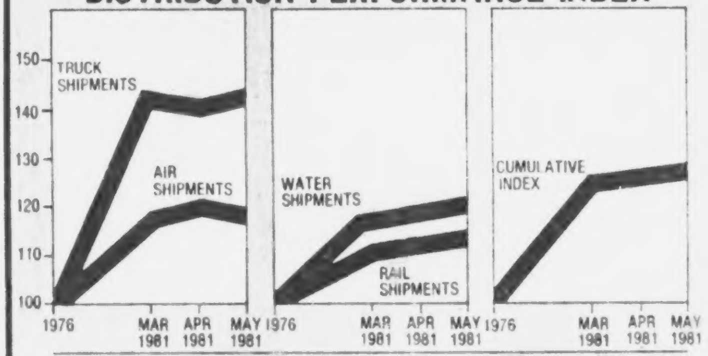
Water moves are expected to increase moderately to 114.1 in April and 115.9 in May. The mild surge in water shipments reflects the upward move in factory shipments of bulk commodities in the first part of the year.

Truck shipments are expected to rise only slightly, rising to 141.8 in April and 142.3 in May. In early '81, intercity truck tonnage hovered around the 153.0 level as reported by the American Trucking Association (Table III).

Rail shipments are up slightly, rising from 111.9 in March to 113.3 in May. This trend is also reflected in the moderate increase in revenue ton miles. They increased from 17.4 billion in January to 18.2 billion miles in February (Table IV).

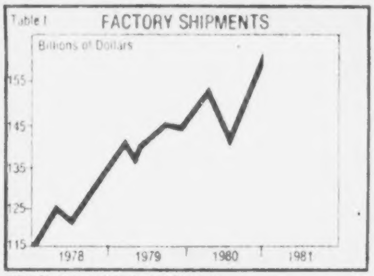
The outlook through May is slow but gradual growth in the distribution sector. Factory orders are expanding at a cautious pace. Uncertainty still seems to prevail in the shipper's mind. As summer approaches, the industry should feel the impact of more consumer demand.

DISTRIBUTION PERFORMANCE INDEX



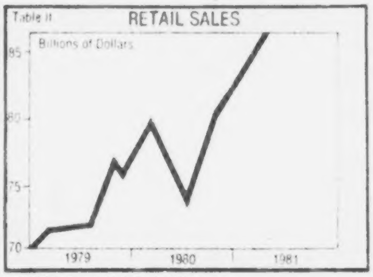
CATEGORY	1976	MAR 1981	APR 1981	MAY 1981
Truck shipments	100	142.2	141.8	142.3
Air shipments	100	118.0	119.2	118.6
Water shipments	100	113.8	114.1	115.9
Rail shipments	100	111.9	112.4	113.3
Cumulative index	100	125.1	126.2	126.8

Table I FACTORY SHIPMENTS



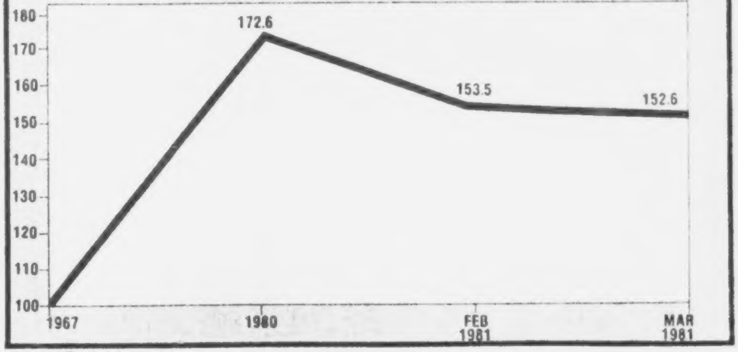
*Wall Street Journal/U.S. Dept. of Commerce

Table II RETAIL SALES



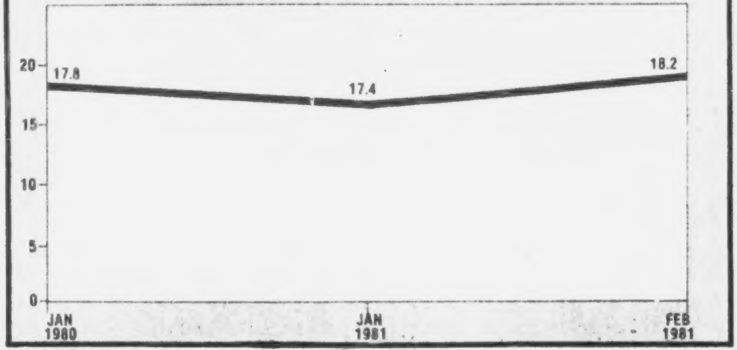
*Wall Street Journal/U.S. Dept. of Commerce

Table III **INVENTORY TRUCK TONNAGE** (Adjusted index)



*American Trucking Association

Table IV **RAIL FREIGHT REVENUE TON MILES** (Billions)



*American Trucking Association

AIR FREIGHT: CAUGHT IN A WHIRLWIND

The winds of change do not seem to be blowing well for anyone. Carriers are caught in a profit squeeze. Forwarders are searching for a new identity. And shippers are left with marginal service and increasing rates.

By **THOMAS A. FOSTER**, Editor-in-Chief

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AIR FREIGHT *continued*

Freight isn't the only thing that moves fast when it goes by air.

The mix of services, aircraft, rate structures and regulation the air shipper must live with has changed with the speed of a jet plane in the last year.

On the domestic front, carriers have entered, then abandoned, markets in rapid succession. Mergers accelerated during the beginning of 1980 but now seem to have slowed. Truckers and cargo commuters carry freight that shippers used to give only to a trunk carrier.

Internationally, more and more U.S. cities are becoming gateways for foreign-flag carriers, while the number of U.S. flag carriers serving traditional markets shrinks. Air rates change faster than the weather, and still more forwarders and consolidators are entering the market to give shippers "custom rates and service."

To say the least, events are changing at a pace too fast for most air shippers to follow. The important thing for the shipper to follow is the trends.

The following analysis of the most significant trends in 1980 and 1981 will give the shipper a good idea of what he can expect in air services and costs in the coming months.

Domestic service

While much has been made of the problems experienced by U.S. domestic air carriers in 1980, the shipper has seen several positive signs in the last year.

Regional carriers and a growing list of commuter airlines have successfully expanded their systems to give air shippers service from points the trunks have abandoned.

The most rapid growth has been with regional carriers, such as Frontier, Piedmont and USAir. Most regional carriers have been able to increase route coverage and add equipment and still remain profitable. A few regionals, like Republic, have grown so fast that profitability has been elusive.

Regional carriers give shippers the advantage of a dependable link with major hubs served by domestic and international trunks. The regionals generally operate on a tight hub-and-spoke system that gives the shipper frequent and regular service to larger air distribution hubs.

The disadvantage of regional carriers is usually limited cargo space and relatively high cost. Most regionals operate 727s or smaller aircraft that handle only small ULDs. There is little opportunity for large-scale through movements of air freight. Rates for the regionals have also grown at a rapid clip—considerably faster than rates for trunk moves between major cities.

Air cargo commuters offer a growing service useful to some shippers. There are actually two levels of air commuter service. A large number of commuter carriers are heavily passenger oriented; a handful of commuters are cargo oriented.

According to recent CAB reports, there are probably only about 25 sizable all-cargo commuters around the country. Their ranks include such carriers as Summit Airlines and Great Western. These carriers tend to fly propeller aircraft such as Electras and YS-13s. And rather than being straight feeder operations for trunk lines, these carriers cover a territory for local shippers and receivers.

The greatest number of commuters (over 225) are passenger oriented carriers with limited interest or capability for cargo. Their purpose is to taxi people to major air hubs from outlying areas.

"We are not really in the freight business," says Larry Crawford, vice-president of marketing for Ransome Airlines in Philadelphia. "We are one of the largest commuters in the world, but our operation is not suited for cargo other than small packages. We do get a lot of this business through our affiliation with USAir. The DASH 7 Nords we fly have no cargo space, nor do we want to add people to handle cargo."

Air shippers are not restricted to airplanes to get their freight from outlying points to major air hubs. Truck hub services that started to emerge after trunk lines abandoned smaller cities are now thriving.

For instance, American Airlines is relying heavily on combination truck and air service to cover all major markets in the U.S. Its 707 freighters have become extremely inefficient and are not suitable for retrofitting to meet noise regulations.

The answer American came up with was to expand its fleet of 747 freighters to serve seven major cities in the U.S., and then to feed these jumbo freighters with trucks from multiple markets.

"Smaller southwestern cities such as Oklahoma City, Tulsa, El Paso and so on, are perfect markets," says George Shipman, American's senior director of freight marketing. "These are all lucrative air freight markets, but there never has been a suitable place to serve these markets. The answer is to tie these points by truck to air hubs like Dallas."

Other major trunks like Flying Tigers are using the truck-hub concept, but Tigers is also experimenting with a more concentrated truck/air service. The all-cargo carrier plans to offer door-to-door service in major market areas using Tiger-controlled motor carriers.

"We have determined that for air freight to grow on our system we must offer premium-service, door-to-door pickup and delivery," says Jack O'Connor, Flying Tigers' new manager of pickup and delivery. "We will contract out the truck service, but the drivers and the trucks will clearly be identified as Flying Tigers controlled.

"We have a pilot program now in Los Angeles, and it has been a great success. We estimate we get more than a 30 percent increase in packages using our own PUD system. Customers like the one-carrier responsibility, and we gain better control over PUD operations. The service will start soon in other cities, beginning with New York."

Forwarders

The distinction between forwarders and carriers continues to be blurred at many companies.

Airborne Freight, the Seattle-based forwarder, specializes in premium air freight service. Despite declining earnings, the company added four DC-9-30 jets to its Airborne Express fleet.

And Emery Airfreight still charters its "air force" every night to carry an estimated 60 percent of its business. "We have committed ourselves to serving certain markets, and the scheduled lift just isn't there," says John C. Emery Jr., president of Emery Airfreight.

Air Express International is also committed to using its own all-cargo airline, called AEI Airlines. AEI's doing so for the same reasons as Airborne, Emery and Profit By Air,

Continued

THE AILING AIR INDUSTRY—WHAT IT MEANS TO THE SHIPPER

Last year will go down as the worst year in the history of U.S. airlines. Or let's hope it's the worst year, not to be repeated.

According to the Air Transport Association, operating losses for domestic trunk airlines added up to nearly $400 million in 1980. Net loss reported by the trunks was somewhere between a few million dollars and $200 million, depending on how much of the sale of equipment and other assets is used to offset operating losses.

Regional airlines fared much better than the trunks last year. Regionals were able to keep up rates and fares, and most depended on well-established hub-and-spoke route systems. Indeed, the regional profits exceeded the trunks' losses.

But so much for history. Shippers are interested in what impact the losses of 1980 will have on service and rates this year and beyond. This impact can only be understood, however, by deciphering what trends the financial performance figures for the airlines show us (see box below).

Revenues are expected to climb in 1981 for virtually all carriers, which is a good sign. The total increase should be at least 14.5 percent over 1980. But costs are also expected to climb, and this créates a great deal of uncertainty for airline profitability in 1981.

ATA optimistically projects operating profits of around $750 million next year, with net profits amounting to at least $500 million.

More conservative airline financial analysts project net profits totaling only about $385 million next year (see below). Their thinking suggests that costs—including fuel, labor, etc.—will not be controlled as well as the airlines expect.

No matter which figures you believe, their meaning is still not good for the shipper. Profit levels for domestic trunks as a group will only be around one or two percent. Airlines can reinvest in the new equipment and facilities they need, only if profits are in the area of six percent.

Airlines will need about $87 billion in this decade to invest in new aircraft and facilities. The aircraft the trunks are flying now are increasingly inefficient, and noise regulations will take them out of service in one or two years. In the next three years alone, airlines estimate they will have to spend $22 billion to replace equipment that will be taken out of service.

Unfortunately, the money is not there. In order to pay for the new equipment, annual profits should be $1.5 billion to $2 billion. Even the optimistic ATA figure of $750 million in 1981 doesn't come close.

Profitability is the main problem facing airlines. How the airlines propose to meet profitability goals is of vital concern to shippers. The worst fears of shippers are:

1. Rapidly escalating rates to generate more revenue;
2. Dramatic cutbacks in routes, flights and ground facilities to cut costs;
3. Accelerated mergers to consolidate service and cut costs;
4. Diversification of airline operations (and investment) into more profitable businesses;
5. Deferred modernization of fleets and facilities.

Airline financial statements indicate that what shippers fear could well come to pass. Comparison of each airline's book value per share with recent share market prices shows that many airlines could be worth more if they were liquidated than if run as businesses. Studies have shown that when this situation exists, mergers and acquisitions come fast and furious.

Most airlines are expected to increase their long-term debt substantially next year. While this trend might suggest that the airlines are going to reinvest heavily in new equipment, it also suggests that the cost of covering loans will be higher. These higher expenses will make it even harder for the airlines to keep profits up.

This vicious circle of unprofitability is reflected in the low figures for earnings on capital and profit margins. Earnings on capital is probably the more important figure because it is the one investors and lenders look at most closely.

With the average return on capital at only 7.5 percent for the trunks, investors and lenders are going to be unwilling to sink much money into the airlines. A much better return can be earned with treasury bills or bonds. The regional airlines have a much more attractive return on capital and could attract much more funding than the trunks.

All these figures add up to trouble for airlines and shippers. It will take more than one or two years for airlines to return to a truly healthy state.

FINANCIAL PERFORMANCE ESTIMATES FOR U.S. COMBINATION AIR CARRIERS—1980 & 1981

CARRIER	REVENUES ($ Million)		NET PROFIT ($ Million)		BOOK VALUE ($ per Share)		RECENT PRICES ($ per Share)		DEBT (L.T.) ($ Million)		Earned on Capital (Percent)		Profit Margin (Percent)	
	1980	1981	1980	1981	1980	1981	Low	High	1980	1981	1980	1981	1980	1981
AMERICAN	3821	4440	(125)	48	22.20	23.45	6.00	19.00	1271	1400	*	4.0	*	1.1
BRANIFF	1452	1500	(128)	(75)	4.70	2.75	3.00	7.00	820	800	*	1.5	*	*
CONTINENTAL	992	1125	(20)	9	12.40	13.00	6.00	13.00	328	400	*	5.0	*	0.8
DELTA	2957	3575	93	159	46.00	53.00	31.00	77.00	148	200	9.5	13.5	3.2	4.4
EASTERN	3452	4000	(42)	60	16.20	17.80	6.00	11.00	1442	1650	0.9	5.5	*	1.5
FRONTIER	469	600	23	30	14.70	18.50	9.00	26.00	111	140	12.5	13.0	5.0	5.0
NORTHWEST ORIENT	1639	1950	7	50	38.76	40.25	20.00	34.00	62	25	1.3	5.5	0.4	2.6
PAN AMERICAN	4016	4625	80	(28)	11.32	10.90	4.00	6.00	1416	1400	6.7	1.0	2.0	*
TRANS WORLD	5018	5800	20	77	17.79	21.00	10.00	28.00	1297	1350	3.7	6.0	0.4	1.3
UNITED	5041	5500	21	70	38.66	40.90	13.00	29.00	1170	1055	3.2	5.0	0.4	1.3
USAIR	972	1175	60	70	17.85	22.65	6.00	24.00	220	320	14.4	11.5	6.2	6.0
WESTERN	996	1150	(29)	15	12.30	13.20	6.00	10.00	435	410	*	5.0	*	1.3
ALL TRUNKS	29385	33665	(100)	385	NA	NA	NA	NA	8440	8800	1.0	7.5	*	1.1
REGIONALS	4000	5500	170	275	NA	NA	NA	NA	1500	1800	13.0	13.5	4.3	5.0

Sources: Annual Reports, Value Line, Wall Street Journal, Air Transport Association

**Indicates figures were approximately zero*

( ) Indicates negative Figures

All trunks include American, Braniff, Continental, Delta, Eastern, Northwest, Pan Am, Trans World, United and Western

Regionals include Frontier, Ozark, PSA, Piedmont, Republic, Southwest, Texas and USAir

All yearly figures are the best estimates at time of publication and may not reflect actual performance the other major forwarder with its own airline.

None of these forwarders say they are competing with the airlines. They simply want to maintain service levels in areas the airlines have abandoned.

The only major forwarder without such a capability is Burlington Northern Airfreight. According to BNAFI's president, Larry Rodberg, forwarder airlines are not only unnecessary,they waste fuel and drain trunk carriers' revenues.

Another emerging trend in the U.S. shows a new kind of cooperation between air carrier and forwarder. This is the wholesaling of belly capacity to a forwarder by the carrier. One such operation is Panaircraft Services, a Houston-based forwarder, and World Airlines, a passenger charter carrier. Panaircraft has a contract for the belly space and takes it upon itself to find the freight.

Air Florida, the regional that is fast growing into an international carrier, subcontracts its European freight capacity to Aircontact, a Norwegian forwarder with offices in New York and Miami.

Lakers, the charter airline that pioneered bargain fares to Europe, has consigned its belly capacity to Panair.

These arrangements allow the carrier to generate new revenue with little incremental cost. The forwarder gets guaranteed capacity at attractive prices. Presumably, the shipper gets bargain rates.

One large air carrier with established cargo service across the North Atlantic scoffed at the quality of the service.

"The shipper is really getting deferred service, and yet in many cases, he is paying nearly regular rates," said the carrier, who obviously had a bias. "The rates are not always the bargain they may seem to be."

International air carriers are upset about another trend that may be emerging in the area of forwarding and consolidating. Air freight shippers' associations may soon gain the authority to act as airline agents and thus collect commissions for international shipments tendered to airlines.

Shippers associations have long acted as consolidators (indirect carriers), but the only economic benefit they received from the carrier was a volume discount. Savings were passed on to the association members.

If shippers' associations were allowed to act as agents (direct carriers), they could tender shipments to carriers, but only shipments they did not consolidate. A business cannot act as an indirect and as a direct carrier for the same shipment.

Another problem arises with the commission the association would receive from the airlines. The normal procedure for earnings of an association is to pass them on to its members. Such a practice could constitute an illegal rebate, however, for commissions.

"The law is fairly clear on rebates," said a Pacific carrier representative who opposes agent authority for shipper associations. "Under Federal law (Federal Aviation Act, Para. 403, 49 USC 1373) coops cannot use commissions to pay back to members. It's a rebate. The only thing the association can do with such commissions is to defray expenses."

The airlines oppose agent status for coops on grounds other than legal. "The coops are doing nothing to earn their commission," said another carrier. "They don't sell air freight. They don't perform the services of an agent. Since these groups are intended to act as consolidators, or indirect carriers, there really is no logical way they could tender shipments to airlines that they didn't consolidate. They would have to start handling single shipments, and that is not their business."

International agreements

Few areas of air freight are changing as fast as the international business. Most of the changes stem from the U.S. and its predilection for greater competition.

In the area of bilateral air agreements between the U.S. and foreign governments, the Civil Aeronautics Board has announced "it will seek actively to add to the current list of pro-competitive agreements and to generally promote a more competitive international regime because a market system benefits the public."

CAB chairman Marvin Cohen believes that "hard rights" (route authorities) and "soft rights" (pricing flexibility) should be pursued with all trading partners now, despite current problems with airline profitability and over-capacity.

"The short-run profit picture should not serve as a predicate for a change in policy," says Cohen.

This CAB policy is getting bad reviews overseas and at home.

The Dutch, with whom the U.S. has its most liberal bilateral agreement, are generally pleased with the present arrangement. The national carrier, KLM, received route authority between Amsterdam and six U.S. cities (the most recent being Atlanta).

In return, any U.S. carrier can fly to Amsterdam. KLM, however, has continued to dominate the passenger and freight markets to the U.S., and few U.S. carriers have attempted to penetrate this market.

Now the CAB wants to renegotiate the agreement to further liberalize it. The CAB wants pricing of fares and rates to be based on a "double disapproval" provision. Presently, either side can disapprove a rate. The CAB wants rates to be automatically approved unless both the U.S. and the Dutch disapprove them.

The Dutch have not accepted this provision, and acceptance seems doubtful. KLM has just suffered its only losing year in recent history. The general feeling seems to be that more liberal pricing is the last thing that is needed now.

The other major agreement now under negotiation is with Japan. Talks have been going on for three years with no progress. No breakthrough is expected soon.

The Japanese strongly oppose the CAB's open competition policy. The Japanese strongly believe in controlled entry of carriers, a stable IATA-based rate structure and equal rights for U.S. and Japanese carriers.

The present agreement goes back to 1952 when the U.S. had unilateral policy making power. The Japanese want to renegotiate to regain what they consider an equal standing with U.S. carriers. The CAB wants to begin a more open agreement that would at least allow more U.S. carriers to fly to Japan.

Japan wants landing rights in more U.S. cities, particularly Chicago, Houston, Seattle and Boston. It also wants "beyond rights" for its flights to South America and Europe via the U.S. These rights would allow the Japanese carrier, Japan Airlines, to pick up and discharge freight, passengers and cargo

Continued

IATA: IS IT DYING, AND SHOULD THE SHIPPER CARE?

The international air freight industry owes part of its growth to the International Air Transport Association. IATA created a stable structure for worldwide cargo tariffs allowing the airlines to grow and the shippers to have reasonable rates. IATA was both a rate bureau of the sky for the international air freight industry and the major trade association for all international airlines.

Just as the events of the past few years have numbered the days of motor carrier rate bureaus, so they have for IATA in the air freight industry. (IATA is even more active in the passenger side of the airlines than it is in the air freight, and this activity is not yet as threatened as freight.)

Most of the major U.S. international freight carriers dropped out of IATA in the mid-'70s. These carriers couldn't remain competitive under the IATA rate structure, and they couldn't participate in the under-the-table dealing that some of the foreign-flag IATA carriers did.

The most problematic area was Southeast Asia. Competition eventually became so intense there that IATA rate structures were ignored by all carriers and ceased to be meaningful. This situation still exists today for the market between the U.S. and certain points in Southeast Asia beyond Japan and Korea.

In 1979, in the wake of U.S. air deregulation, all U.S. carriers remaining in IATA (American, Braniff, Eastern, Flying Tigers, TWA and United) were barred from participating in the rate setting part of IATA. So all U.S. carriers tended to follow the IATA rates, but they couldn't participate in their development.

More recently, IATA has been put to its greatest and perhaps final test. Sluggish economies on both sides of the Atlantic have created over-capacity and intense competition among a growing list of carriers vying for the North Atlantic air traffic.

Charter and contract rates as low as 40 percent of the existing IATA rates destroyed the long-established rate structures on the North Atlantic last fall. Shippers were enjoying unbelievably low rates, but the carriers were losing money on just about every pound of freight they carried.

To reverse this suicidal trend, IATA brought together all member carriers in February to produce a stable rate formula. A formula was agreed upon and later approved by the U.S. Civil Aeronautics Board. The formula called for rate increases ranging from about eight percent for certain commodity rates to as much as 20 percent for contract and charter rates.

Unfortunately, the carriers also insisted upon an escape clause. The ink was not dry on the agreement before the carriers had renewed contracts with volume shippers at the very low rates.

As can be seen on the table below, the movement of cargo over the North Atlantic was off only slightly for 1980. Westbound movements were down 5.6 percent, but there was actually an increase in tonnage eastbound. Yet the airlines lost millions of dollars on this traffic. Because of the imbalance of traffic and low rates.

IATA was unable to raise rates on these routes last year, and they are not being any more successful this year. The air carriers are locked in a rate war they can't stop. In order to improve balance, some carriers are reportedly willing to discount on the eastbound to get traffic on the return.

Shippers are not unhappy about this trend; at least big shippers are not. They are getting the low contract rates. But smaller shippers find themselves paying the higher, IATA formula rates.

Shippers are worried. There will probably be a weeding out of some of the 46 carriers on the North Atlantic. Capacity will reduce itself to the volume of traffic. Since IATA has proved so ineffective in stabilizing the rate structure, the whole IATA mechanism may disappear, just as it did in Southeast Asia.

What shippers would be left with is an air system dominated by large volume forwarders who would develop their own rate structures. It is hard to say how rates for the shipper would be affected by such a change, but unless the situation changes in the North Atlantic, we will soon find out.

NORTH ATLANTIC TRAFFIC 1980

	ALL SERVICES		SCHEDULES SERVICES		CHARTER SERVICES	
	NUMBER	% CHANGE OVER 1979	NUMBER	% CHANGE OVER 1979	NUMBER	% CHANGE OVER 1979
FLIGHTS —Total	98,732	−4.1	87,577	−0.2	11,155	−26.7
—Passenger	89,249	−4.0	78,849	0.0	10,400	−26.2
—All-Cargo	9,483	−5.0	8,728	−1.4	755	−33.2
FREIGHT —Total	860,874	1.5	829,798	1.6	31,076	−1.6
—Passenger	474,447	1.5	474,375	1.5	72	42.0
—All-Cargo	386,427	1.5	355,423	1.8	31,003	−1.6
—Eastbound	544,823	6.2	522,513	5.5	22,309	23.6
—Westbound	316,051	−5.6	307,285	−4.3	8,767	−35.2

NOTES:
1) This report covers the operations of all airlines operating on the North Atlantic; estimates have been developed for those carriers which did not participate in the data collection.
2) Changes in Load Factor over previous period are percentage points.
3) 46 carriers operate scheduled services on the North Atlantic, 32 of them being IATA Members.

in the U.S. on these through flights.

Japan also wants strict parity in numbers of U.S. flights and routes. The formula Japan has suggested is "the designation of a single carrier from each country to operate each air route with equally shared and predetermined capacity."

The U.S. and Japan will have to reach some compromise to get their negotiations off dead center.

The most frequently mentioned compromise would be granting a new gateway for JAL, probably at Chicago, in return for route authority for United Airlines.

Foreign governments are not the only ones opposing the CAB's free competition policy.

"I would hope for an early abandonment of either missionary zeal or wishful thinking in the shaping of this nation's policies," says C. E. Meyer, Jr., president of Trans World Airlines. "It's an inescapable fact that in international aviation, a comprehensive free competitive market does not exist, no matter how much we wish it. We have seen the result: A serious deterioration of the U.S. flag carrier presence in the international market," says Meyer. ■

Chilton's
JUNE 1981

DISTRIBUTION

FOR TRAFFIC & TRANSPORTATION DECISION MAKERS

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HOW YOU REALLY LOOK TO YOUR CARRIERS

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BUSTED: A DISTRIBUTION CENTER CLEANS HOUSE □ DEATHWATCH AT THE CAB
ITALY'S BIG MARKET FOR SMALL U.S. COMPUTERS

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VOLUME 80, NUMBER 6
JUNE 1981

Chilton's
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CARL W. LOCK, PUBLISHER
ESTABLISHED 1901 AS THE *TEAMSTER*
CLIFF MITCHELL, CIRCULATION MANAGER

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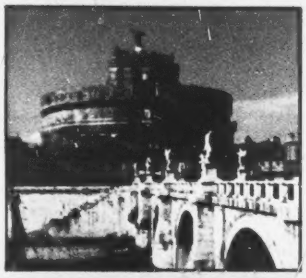

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The Cover: *The face each shipper sees in the mirror looks just a little different from the one carriers see when doing business with you.*

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'CAUTIOUS OPTIMISM' IS THE BYWORD FOR JUNE

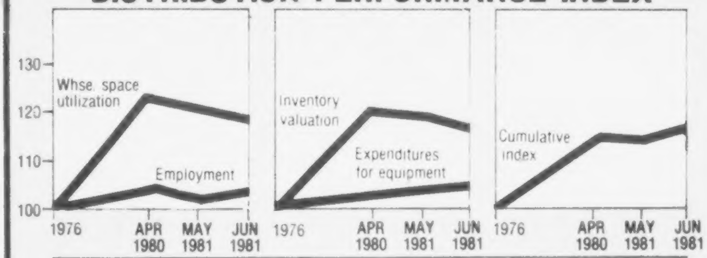
The economy in the second quarter of 1981 should show much improvement over the 1st period. Inflation is leveling off, interest rates are gradually declining and employment is improving. Economists refer to this upturn as a mild recovery, and many see the balance of 1981 turning this into a recovery year. Shippers are contributing to this upturn, as shown by the rise in factory shipments to a level of $150 billion (seasonally adjusted) through June 1981. This is up from $148 billion in March 1981.

The increase in factory shipments is supported by the reduction in the inventory levels. The ratio of inventory to sales declined from 1.4 in April, 1981 to 1.35 in June. Similarly, the gap between unfilled orders and manufacturer inventory levels has narrowed, with the difference amounting to less than $20 billion at the end of the first quarter of 1981. Distribution managers are keeping a watchful eye on inventory levels to insure that the amount invested is kept at a minimum. As one distribution manager stated, "Inventory that is too high is a liability to my firm."

The purchasing power of the invested dollar has also declined, providing the rationale for why inventories are so low. The value of the invested dollar dropped $.368 in March 1981, down from $.370 in January.

The Distribution Index reflects the national drop in inventory levels and the mild recovery, with warehouse space utilization dropping from 122.3 in April 1981 to 119.1 in June. The drop in inflation is reflected in the decrease in inventory valuation from 119.3 in April to 117.3 in June. Employment in the distribution industry is also expected to improve, with index rising from a level of 100.1 in April to 102.4 in June, 1981. The overall performance in the distribution industry will improve, as reflected in the rise of the cumulative index from 114.1 in April to 116.7 in June. Cautious optimism is the byword for June 1981.

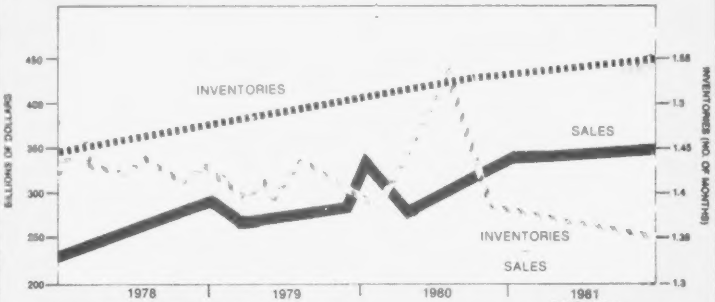
DISTRIBUTION PERFORMANCE INDEX



CATEGORY	1976	APR 1980	MAY 1981	JUN 1981
Whse. space utilization	100	122.3	121.3	119.1
Employment	100	100.1	101.1	102.4
Inventory valuation	100	119.3	118.6	117.3
Expenditures for equipment	100	101.3	102.4	102.9
Cumulative index	100	114.1	115.2	116.7

TABLE: I

INVENTORY TO SALES



SOURCE: Dept. of Commerce/Inquirer

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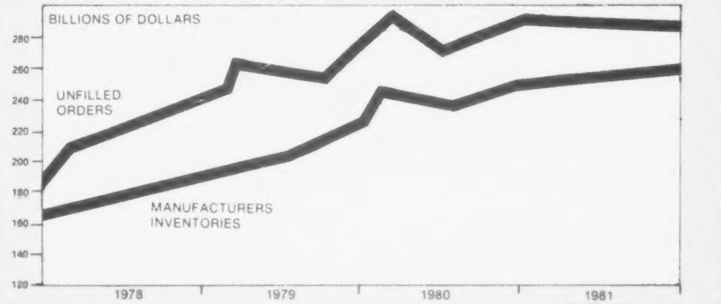
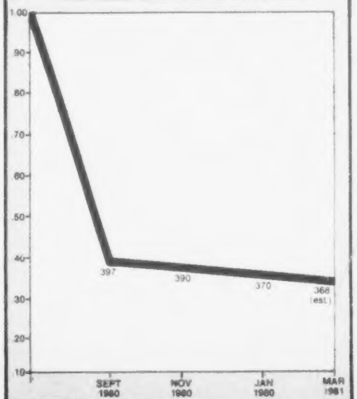


SOURCE: Dept. of Commerce

Table: III

PURCHASING POWER OF THE INVESTED DOLLAR



SOURCE: Dept. of Commerce

Table: IV

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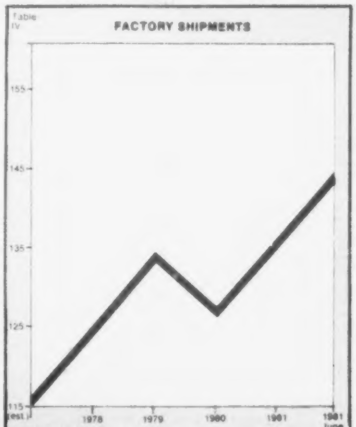

SOURCE: Dept. of Commerce

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HOW YOU REALLY LOOK TO YOUR CARRIERS

Responses to an exclusive DISTRIBUTION survey reveal that carrier reps feel too many shippers either know nothing or think they know it all

By JOE BARKS, Senior Associate Editor

Remember the time you told each of four carriers that the other three were quoting you lower rates? Your carriers remember.

Or how about the time you gave half your freight to Promise The World Trucklines, only to see that carrier—and a few Old Reliable Truckers with it—jackknife into insolvency six months later? Your carriers remember that, too.

Nor have they forgotten the time you let it slip that you thought a letter of credit was something that praised a company for a job well done. Or the time you told a carrier rep you'd be glad to see him—if the time was Sunday afternoon and the place the 50-yard line.

Carriers have some vivid and indelible memories of the tactics shippers have used and the mistakes they have made when buying transportation. Needless to say, not every shipper pulls every stunt alluded to above, and many have always played it straight. But it's clear that it's just as easy for carriers to accuse shippers of misdeeds as it is for shippers to unload on their carriers.

How do we know? Carriers told us so. DISTRIBUTION recently mailed questionnaires to nearly 1000 carrier and forwarding executives. The survey asked 13 questions designed to give us insight into "What Carriers Think Of Shippers." The 160 replies formed the basis for the statistical tabulations sprinkled throughout this article.

At the end of the questionnaire, we asked those surveyed if they would be willing to be called for follow-up discussion of the topic. Surprisingly, over half of those responding were willing to go on the record. Contact was then made with some 15 randomly selected carrier reps and executives, and some of their comments are also included in the following pages.

In the letter accompanying the survey mailing, a point was made that bears repeating here: "The purpose of our article," we told carriers, "is to allow carriers a chance to give their point of view on shippers' habits, knowledgeability, fairness and so on. Our article is *not* intended to embarass shippers in any way. We merely want to bring to our readers' attention that they may not always be right. We hope our readers will gain an insight into carrier attitudes that will stimulate more cooperation."

And make no mistake, readers: Carriers have some very stimulating attitudes. Their answers to the survey's very first question made it clear that they aren't exactly overwhelmed by shippers' grasp of the transportation field.

Asked to rate shippers' overall knowledge of current rates, services and other aspects of traffic and distribution, only 5.3 percent of the respondents felt the shippers they deal with have "excellent" knowledge of the field. Nearly 40% felt "good" was the proper answer, but another 42.7% thought "fair" was more like it. And, when another 7.3% checked off "poor," that meant exactly half the carriers polled characterized shippers' overall understanding of the field as fair or poor.

Carriers contacted for follow-up were quick to point out that their answers were generalized and that many shippers they deal with could pass any traffic test with flying colors. "Actually, it runs the gamut from expertise to total ignorance," notes Evelyn O. Aharon, export manager for Allen Forwarding Co. in Philadelphia.

But carriers say they keep running into too many shippers with shortcomings to be able to characterize the capabilities of the entire profession at a level better than adequate. Problems most frequently arise, they say, when dealing with smaller companies, or when dealing with shippers with little or no practical experience. And international distribution seems to be a special area for error.

"The basic caliber of the [American] international shipper just doesn't match up to the European counterpart," asserts James H. Breda, international manager for Burlington Northern Air Freight's East Boston office. "We see too many people who will just ship something with no documentation, no licensing, no working knowledge of the area it's going to. Chances are they won't even know where the country is."

Shippers who spend a significant amount of time handling foreign-bound freight must either educate themselves through seminars or college courses, international carrier reps feel, or put their trust—and freight—in the hands of a reliable forwarder or carrier. But, it's noted, to do so often requires overcoming another common shipper misconception—that it's cheaper to do it all yourself.

"It's surprising how many people you run into who say: 'We do all our own paperwork so we don't have to pay a forwarder's fee,'" notes Keith Rogers, a Scandinavian Airlines rep out of Cleveland. "Yet usually the forwarder draws a commission straight out of the IATA rate, and the paperwork fee is only about $10. You figure out the time spent [by the shipper] to do the paperwork himself, and account for the extra chance that he won't do it right, and at best it's a 50-50 giveaway."

Deregulation of most of the major modes has only further widened an already yawning margin for error, most carriers agree. On the air and forwarding side, carrier reps say it's almost impossible to stay up-to-the-minute on rates. Yet many shippers insist they can still get by with no help from computerized rating systems and no input from forwarders or the airlines themselves.

"There's so little verifiable information to go by today—tariff filings aren't even necessary," notes Michael Capezza, a WTC Air Freight rep in Newark, N.J. "Many companies are unaware of what's really available, so they continue to do what's comfortable, even though it may not be to their best advantage."

Increased variety of aircraft types has added another headache for air freight reps: shippers' dimensional descriptions. "In general, the shipper only knows what [a piece] weighs," complains Burlington Northern's Breda. "There's no concept of density. You ask what the dimensions are, and they'll say: 'Well, it's like it is usually—small.' They don't understand that the airlines charge on the basis of volume."

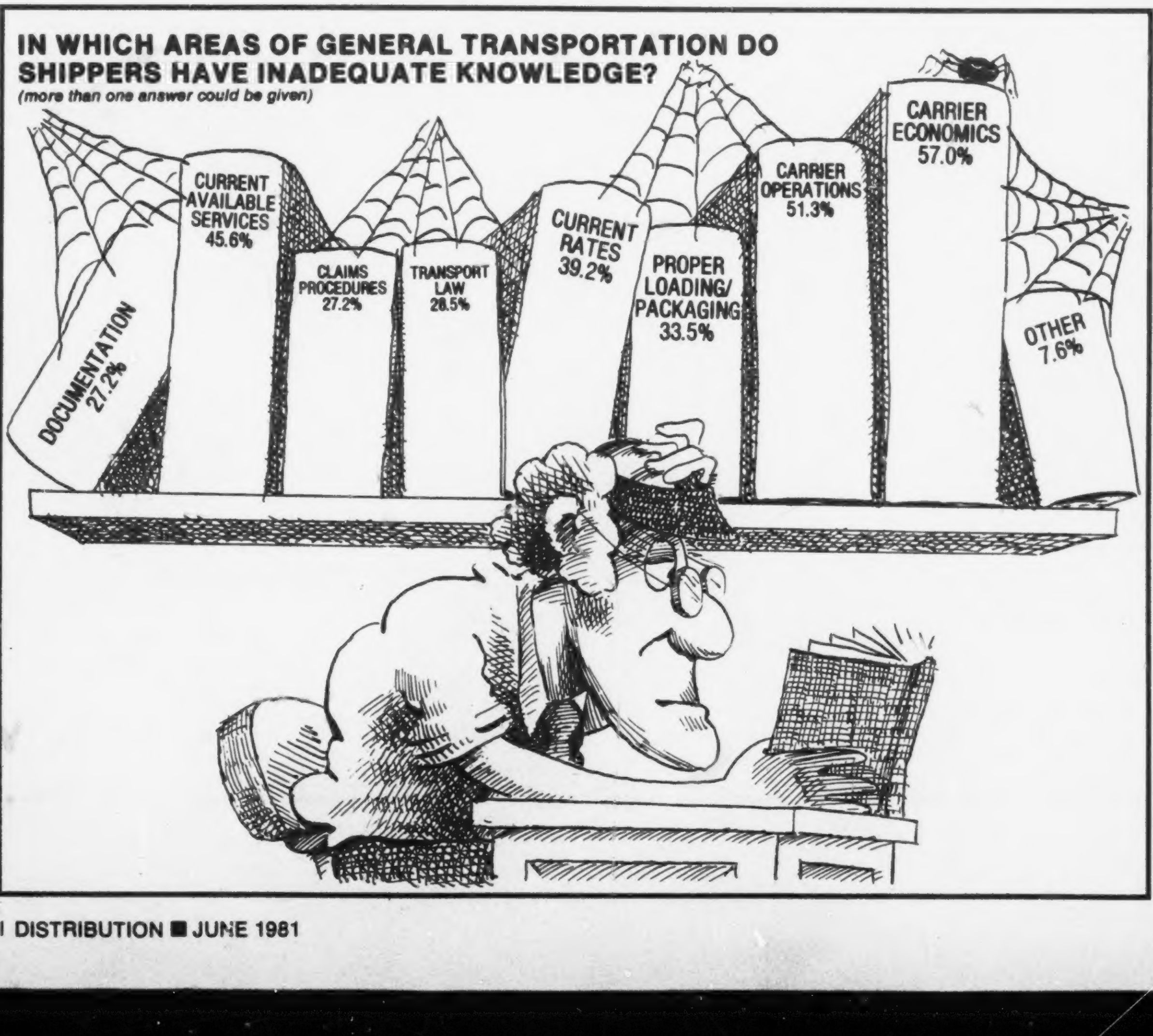
Know-nothings

On the motor carrier side, the consequences of deregulation-induced ignorance can be a lot deadlier for all concerned. Asked to identify the specific transportation areas where shippers have inadequate knowledge, responding carriers checked off every category in significant numbers (see chart below). But only two areas—carrier economics and carrier operations—garnered support from over half of those polled. And among respondents from within the motor carrier mode, support in each case rose to over 60 percent.

Motor carriers don't like to see shippers stay uniformed about the costs of doing business because they are the shippers who are more likely to yield to temptations dangled by unreliable and unsound carriers. It's a tired old fear that carriers have been expressing since the first inklings of deregulation, but apparently it's already proving to be at least somewhat founded.

"Both sides have got to be more realistic," notes a worried Dale Wolfgang, vice president-traffic for Nelson's Express Inc. of Millersburg, Pa. "In the new climate many carriers have grown beyond their means and are overselling what they can actually do. Yet many shippers seem to be operating under the opinion that anything's possible. They believe that these carriers can go everywhere and do everything and that any rate's negotiable."

A whopping 83.5% of the motor carriers polled agreed that shippers


IN WHICH AREAS OF GENERAL TRANSPORTATION DO SHIPPERS HAVE INADEQUATE KNOWLEDGE?

(more than one answer could be given)

frequently opt for low-rate carriers at the expense of well-established, more responsible lines. (Overall, 79.6% of all respondents expressed the same sentiment.) And carrier reps contacted later were nearly as unanimous in their belief that, sooner or later, shippers will pay for this short-sightedness.

"Instead of just asking: 'What are your rates?' shippers ought to be discussing why they are such," believes Mike Murawski of Schilli Motor Lines' Mt. Royal, N.J. office. "They ought to try to become a little more cognizant of carriers' pricing theories.

"Because in the long term, after this free-for-all quiets down, the tables will be turned," Murawski warns. "When business picks up and the strong carriers have survived, shippers won't be able to use the shotgun approach any more. The gun will be pointing at them."

While most carriers agree that the careless, uninformed shipper is the most dangerous and prevalent breed, there are some other variations of the species they would also like to drive into extinction.

One is the overinformed "transportation technician," well-versed in textbook methodology and theory but totally inflexible when it comes to practical application of the craft.

Carrier chagrin

Many carriers contacted for this article expressed chagrin over the intractability of some of their customers. The frustration has only intensified, these carriers say, as they attempt to institute some deregulation-inspired innovation.

"I don't know if it's perhaps more indigenous up here, because of the New England [mind-set]," reports Norm Miller of Charles C. Towne & Sons, Inc., Springfield, Mass. "But a lot of shippers' minds are closed to anything new. You could go in and tell them you'd pay them [for the right] to haul their freight and they'd still be very blase. You can tell them they're not really representing their company [by resisting change] and they just look the other way. It's a sad situation."

Then there's the type of shipper, carriers claim, to whom a little knowledge is a mighty dangerous thing. The knowledge is that as transportation buyers they wield influence with carrier representatives. The danger comes when they attempt to abuse this power.

Three-quarters of the carriers surveyed said they felt large shippers unreasonably use their business volume as a lever to get special rates or service. And 80.4% of those polled said that shippers—big and small—use "whipsaw negotiation" when discussing rates.

Carriers admit that transportation buying necessarily involves a certain amount of deal-making and a certain exertion of leverage—especially these days. Their objections arise when such go-rounds include erroneous or misrepresented information. Yet now that shippers know that it's much harder to determine just exactly who's paying what, carriers say such dishonest practices are becoming more prevalent.

Naturally, carriers insist they're wise to the whipsaw game and that shippers are the ones who end up getting flogged by the tactic. Carriers say their defense to whipsawing is simple: Knowing their costs. If, after checking out a competitor's rates to see if the shipper is telling the truth, carriers see they can come down some and still make the haul at a profit, they will probably lower the quote. But once they've reached their limit, carrier reps say, a shipper who still asks for more is a shipper to whom they'll soon say goodbye.

And, they add, the goodbye will most likely be forever—especially if it's discovered the whipsawing has included false quotes. "We'll just back away and say: 'See you later,'" reports Keith Vaskelionis Sr., executive vice president of Blue Line Express, Inc., Nashua, N.H. "We're not interested in dealing with people like that."

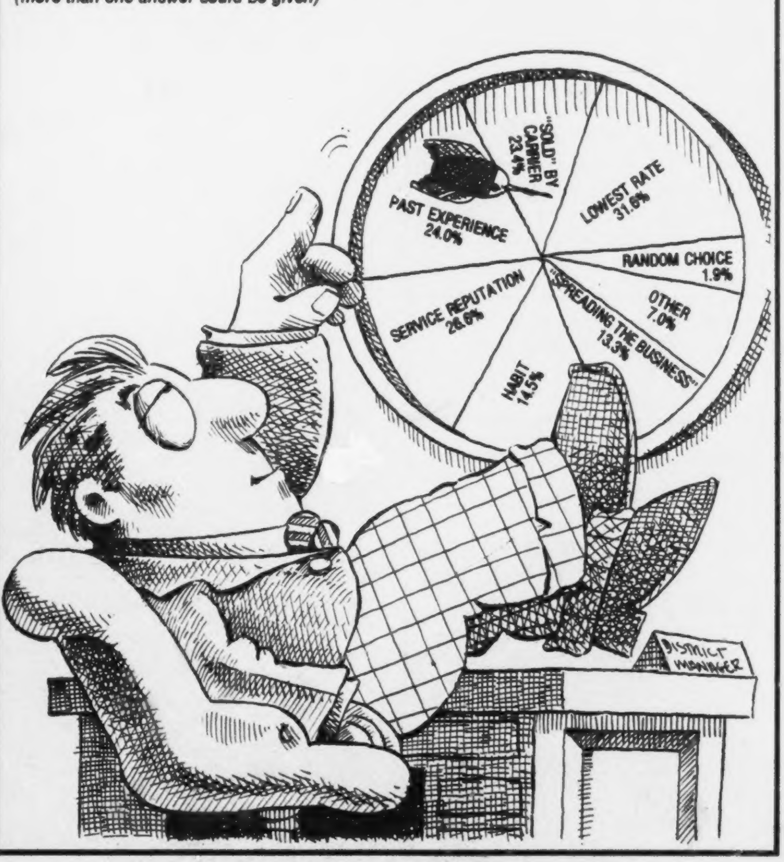
Carriers' reasons for backing off aren't totally because of ethical considerations, either. A much more practical concern is that the emphasis these days is on service. A shipper who seems interested only in securing a bargain rate by any means is not as attractive to carriers as one who is also interested in performance. Low rates, after all, are a lot harder for a carrier to maintain in the long run, so those with an eye to the future are jockeying for position in the service derby.

"We don't want to get into bidding wars," Burlington Northern's Breda says. "The shipper and the carrier both should know that when you do that, you sacrifice service."

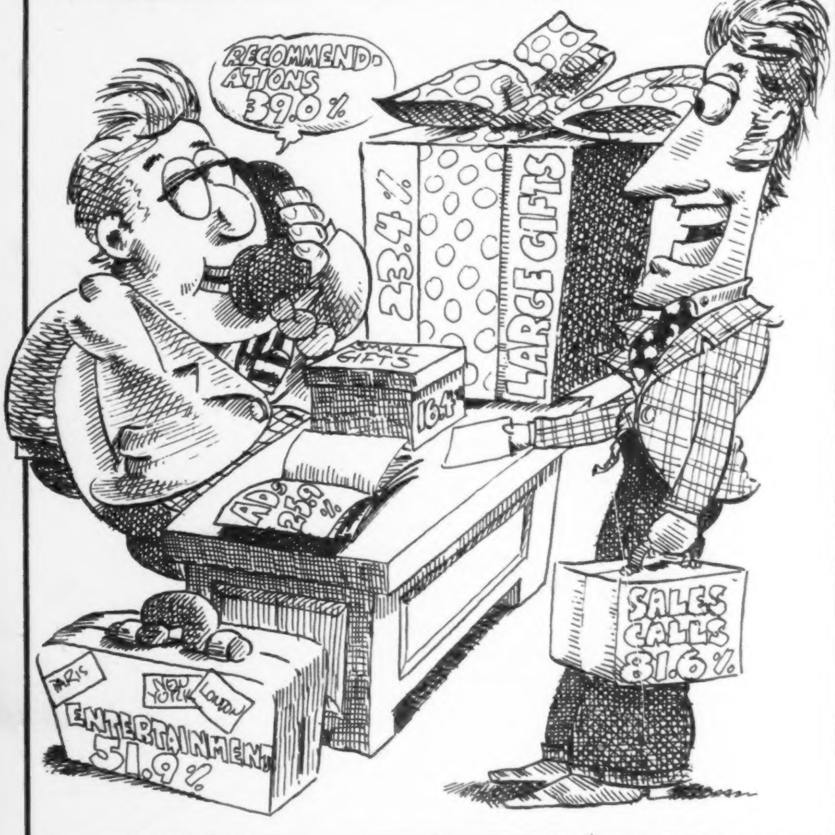
Another time-honored game that

HOW DO SHIPPERS CHOOSE THEIR CARRIERS?

(more than one answer could be given)



WHAT SERIOUSLY INFLUENCES A SHIPPER'S CHOICE OF CARRIERS? *(more than one answer could be given)*



How do most shippers view your sales calls?

(more than one answer could be given)

A valuable opportunity to hear the latest offerings from carriers. All business	38.0%
A friendly bull session that is more personal than business.	32.9%
An unwelcome interruption that is made as brief as possible.	19.0%
A free lunch that may not have any real value to the shipper.	18.3%

As a result of deregulation, what programs or innovations have shippers asked for?

(more than one answer could be given)

Volume discounts	70.2%
Contract rates	55.7%
Bargain-rated low-service programs	34.2%
Customized "extra service" programs	17.7%
None	12.0%

Do shippers frequently opt for low-rate carriers at the expense of well-established, responsible carriers?

Yes 79.6% No 20.4%

Do large shippers unreasonably use their business volume as a lever to get special rates or service?

Yes 78% No 22%

Are small shippers' complaints about second- or third-rate service at all justified?

Yes 56.1% No 43.9%

How would you rate shippers' overall knowledge of current rates, services and other aspects of traffic and distribution?

Excellent	5.3%	Fair	47.7%
Good	39.7%	Poor	7.3%

What size shipper is generally the most knowledgeable?

Large	80.3%	Small	2.0%
Medium	17.7%		

What level of traffic or distribution management is generally the most knowledgeable?

VP or director	10.4%
Traffic manager	76.6%
Supervisor or below	13.0%

seems to be losing its appeal is the "What have you got for me?" interchange. Thankfully, carriers report that their sales calls on shippers are increasingly leaning toward more business and less pleasure. Apparently, both sides now realize there's too much at stake to waste on small talk or risk by putting the hand out.

Carrier reps report they are still running into a few shippers who remain beholden to old friends at the expense of their companies, and a few who expect to ride along free with their cargo. But most agree with Schilli's Michael Murawski's assessment that "the old days of glad-handing are over."

Allen Forwarding's Evelyn O. Aharon, who continually hops back and forth over the shipper-carrier fence, says that's the way it should be. "When I'm a shipper being approached by a carrier rep, I'm looking for information that will help me do my job better—[information] about new routes, services," she says. "As a carrier, I feel some obligation to do more than present a friendly face. I want to help [shippers] consolidate their shipments or arrange a total distribution system. If I can't tell them something that they can use, I feel I'm wasting both their time and mine.

"Either way," Aharon says, "I don't have a whole lot of patience with anyone who just wants to sit around and joke or flatter me."

Here, too, carriers say the shipper who doesn't want to get down to business is the shipper who will go on the low-priority list. "We'd probably conclude [such a person] isn't the best of prospects," notes WTC Air Freight's Michael Capezza.

And carriers are quick to point out that there remain enough good, professional, well-informed shippers out there to enable them to weed out the marginal ones. For example, John B. Everman, v.p. of traffic-sales for Dahlman Truck Lines, Inc., Stevens Point, Wis., reports that most of the shippers he deals with today are "very knowledgeable and very competent."

"You do hear things [about shipper improprieties]," Everman says. "And, personally, I may know of one or two such instances. But it's not fair to generalize about the overall picture [because of them]."

Everman notes that most of the accounts he serves are "larger, national-type" shippers staffed with true transportation professionals. "They're interested in service in the total sense of the word," he reports, "not the latest football or baseball scores."

Other carriers admit they've been impressed, and even a little frightened, by the cautiousness of some shippers in these wild-and-woolly times. "Some are asking an awful lot of awfully tough questions," notes Blue Line Express' Keith Vaskelionis. "What insurance we have, what equipment we have, and so on. The good traffic managers seem intent on catching a lot of problems before they happen."

Good traffic managers are also intent, it appears, on joining with carriers to make deregulation work to the mutual benefit of both. Seventy percent of the carriers polled indicated that shippers had initiated volume discount programs as the result of deregulation, and 55.7% said shippers had worked out contract rate deals with them. On the other side of the coin, only 12% said shippers had failed to initiate any sort of innovative arrangements.

Carriers also conceded (56 percent to 44 percent) that small shippers probably do have a legitimate gripe about receiving inferior service because of their size. And they indicated—albeit not in overwhelming numbers—that other well-worn shipper complaints are warranted, at least some of the time (see chart above).

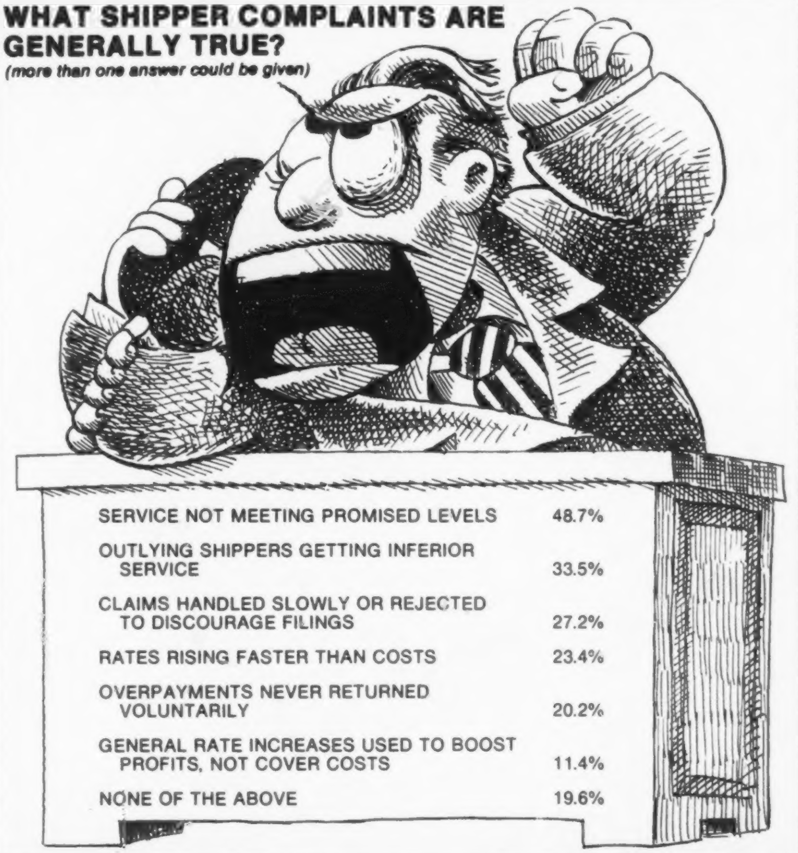
Finally, many carriers used our survey to take the opportunity to trot out the old party line about the need for increased cooperation between the two factions, particularly in the current transportation climate. The earnestness of such bromides can always be questioned, but shippers should have no doubts about one thing: Carriers are fighting for their very existences these days, and, as a result, they are in no mood to play games. Shippers who attempt to pull any of the old stunts can expect to be playing more and more solitaire in the future.

"Nobody has time for cat-and-mouse anymore," says Schilli's Murawski. "We want to be the shipper's consultant—his confidant. To do that, we have to find people who are really interested, not just those who are interested because you're there.

"And we want accounts we can service day in and day out," Murawski adds. "So the guy that's just going to be handing two loads out to us and two loads to the next guy isn't someone we'll stay in touch with." □

WHAT SHIPPER COMPLAINTS ARE GENERALLY TRUE?

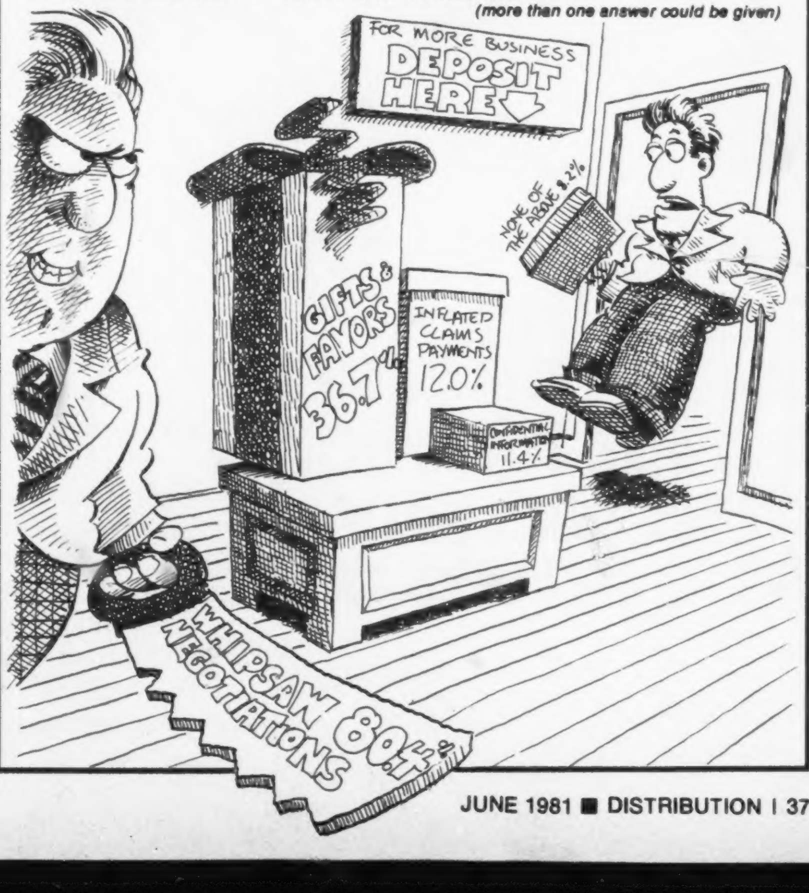
(more than one answer could be given)



SERVICE NOT MEETING PROMISED LEVELS	48.7%
OUTLYING SHIPPERS GETTING INFERIOR SERVICE	33.5%
CLAIMS HANDLED SLOWLY OR REJECTED TO DISCOURAGE FILINGS	27.2%
RATES RISING FASTER THAN COSTS	23.4%
OVERPAYMENTS NEVER RETURNED VOLUNTARILY	20.2%
GENERAL RATE INCREASES USED TO BOOST PROFITS, NOT COVER COSTS	11.4%
NONE OF THE ABOVE	19.6%

WHAT UNPROFESSIONAL TACTICS (OR PRESSURE) DO TRAFFIC AND DISTRIBUTION MANAGERS USE WHEN DEALING WITH CARRIERS?

(more than one answer could be given)


FOR MORE BUSINESS
DEPOSIT HERE
NONE OF THE ABOVE 8.2%
GIFTS & FAVORS 36.7%
INFLATED CLAIMS PAYMENTS 12.0%
CONFIDENTIAL INFORMATION 11.4%
WHIPSAW NEGOTIATIONS 80.4%

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AUGUST 1981

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COAL: A Burning Issue for EVERY Shipper

A Woman's Place Is in Distribution

Cash Management: A New Role for Freight Payment Plans

Rail In-Transit Routing: Right or Privilege?

Candid Comments from the FMC

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The Cover: *Take-a-number waiting lines at major ports are just one example of the way shippers can be burned by the recent coal boom. And there are positive effects of the surge, too.*

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FORECAST

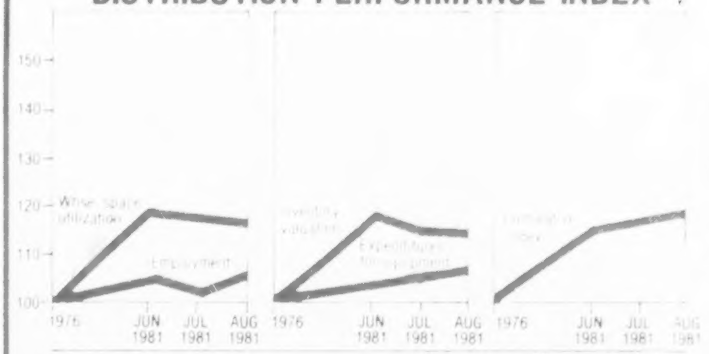
GREAT EXPECTATIONS CAN'T ESCAPE FROM WASHINGTON, D.C.

The word around Washington during the hot summer is "Up, up, up." The Reagan economic team forecasts portend happy times ahead. They forecast the GNP to grow at an annual rate of 2 to 3 percent in 1981 and see inflation as getting out of the double digits to around nine percent by the end of the year. They also forecast the prime rate to drop below 15 percent before the end of the year.

In the distribution industry shippers certainly are not reflecting Washington's optimism as they become more cautious as inventory levels continue to fall. This is reflected in the slow rise in manufacturers' inventories as the gap between unfilled orders and inventory levels narrow. Coupled with this is the relatively modest decline in the purchasing power of the invested dollar to a level of .367 cents through the second quarter. Also, in contrast to Washington's optimism, is the slow down in factory shipments which are expected to decrease to a level of $144 billion dollars through August, 1981.

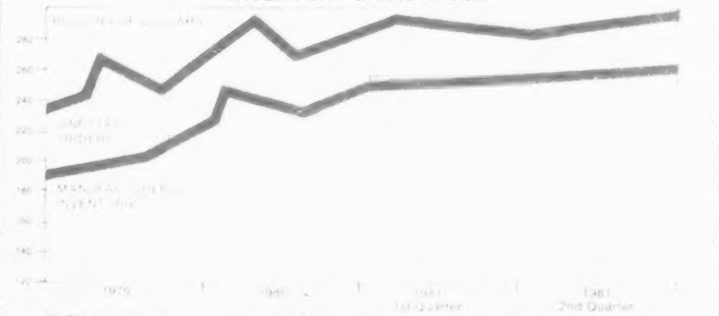
The Distribution Performance Index reflects the mixed picture in the distribution industry with warehouse space utilization dropping due to declining inventories, but employment rising slowly to a level of 103.4 through August. Inventory valuation is falling reflecting the decline in inflation from 117.3 in June to 115.2 through August. As one shipper stated, "I think we are turning the corner on price increases. We are now experiencing an over supply condition. Something we have not experienced for a long time."

DISTRIBUTION PERFORMANCE INDEX



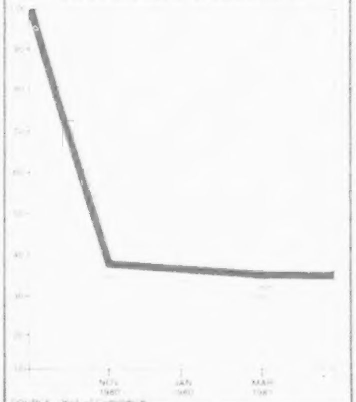
CATEGORY	1976	JUN 1981	JUL 1981	AUG 1981
Whse. space utilization	100	119.1	118.2	117.5
Employment	100	102.4	101.6	103.4
Inventory valuation	100	117.3	116.4	105.2
Expenditures for equipment	100	102.9	103.2	105.4
Cumulative index	100	116.7	117.3	118.1

INVENTORY & BACKLOGS



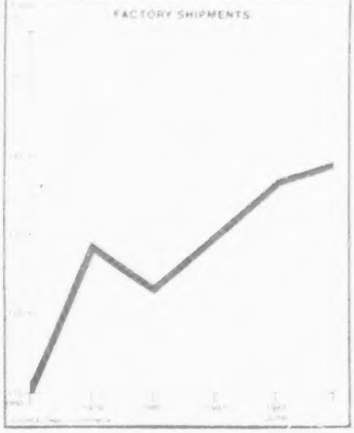
SOURCE: Dept of Commerce

PURCHASING POWER OF THE INVESTED DOLLAR



SOURCE: Dept. of Commerce

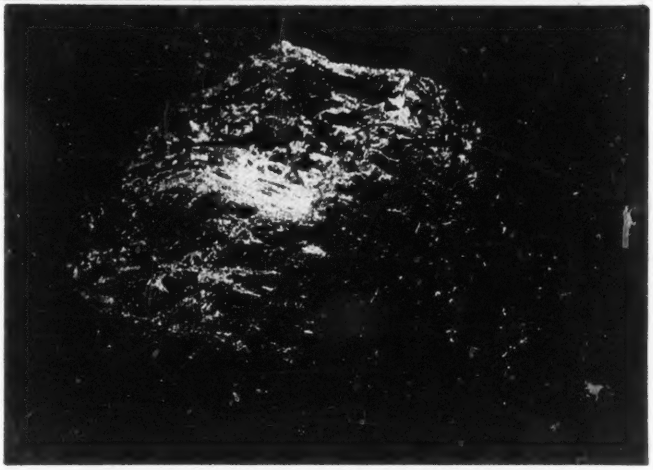
FACTORY SHIPMENTS



The distribution industry is manifesting some confidence with the planned expenditures for materials handling equipment expected to rise to a level of 105.4 through August, 1981. This is up from a level of 102.9 in June. The overall cumulative index will rise to 118.1 through August reflecting the mild upturn. The outlook for the fourth quarter is positive, but, one cannot be overly optimistic as are the Washington economic forecasters. As one shipper stated, "I have been burned too many times before to let my expectations be too unrealistic about the future."

COAL

A BURNING ISSUE FOR EVERY SHIPPER



"Coal is King—there's no doubt," says the rail traffic manager at a major Midwestern fertilizer producer. "And the emphasis on coal has had a negative effect on all other commodities.

"We had a service complaint on a railcar moving to the East Coast," this shipper relates. "I called my railroad to find out what was happening, and the response was: 'There's a coal strike going on down here.' 'Fine,' I said, 'that should make it easier to move my cars, not harder.' The answer was: 'Sorry. When coal isn't moving, this is a ghost railroad.' "

While many of this shipper's opinions are subject to considerable debate, he's definitely right about one thing: Coal is indeed king of the transportation world these days.

Much attention has been paid, in publications and seminars, to changes in the transportation patterns of coal companies as the result of increased demand for U.S.-mined coal. But little consideration has been given to what it all may mean, in both positive and negative ways, to other shippers.

As this DISTRIBUTION report shows, it means a lot. Prepared by Senior Associate Editor Joe Barks, Associate Editor Denis Davis and Contributing Editor Edgar Coudal, we go back to the beginning to look at the coal boom from the standpoint of every shipper—big and small, bulk and box, domestic and export. Seen in this light, it quickly becomes clear that, for better or for worse, all shippers in some way will be subject to King Coal's reign.

PART ONE: THE CHALLENGE

In its heyday after the Second World War, U.S. coal fired the rebuilding of Europe. By the mid-1950s, exports represented a record 15 percent of total U.S. coal production.

Soon afterward, however, deep-mined "black gold" began to lose ground to a cleaner-burning, liquid rival—oil. And, except for a mini-boom in the late '60s, coal movements were caught in the doldrums.

Then a handful of oil-producing countries shook the industrialized world in the early '70s by simultaneously raising prices and cutting supplies. Suddenly, interest was renewed in coal for energy.

Interest became a crusade in the industrialized world when, at the end of the last decade, economic conferences in Tokyo (1979) and Venice (1980) ended with Canada, West Germany, France, Italy, Japan, the U.K. and the U.S. agreeing to shoot for a doubling of both production and use of coal by 1990. And with those vows, the West threw the drive to coal into high gear.

Unfortunately, carriers and shippers were caught off guard. While the U.S. had long been a major supplier of metallurgical coal for steelmaking, it wasn't prepared for the crushing demand for steam coal for utilities.

Labor and social problems in such far-flung coal-producing countries as Poland, Austrialia and South Africa made U.S. steam coal even more attractive. Suddenly, a coal-hungry world was beating on our door with a vengeance. With demand came congestion: the length of the coal line outside our ports was matched by the traffic jams just inside.

U.S. coal exports rose from 64.8 million tons in 1979 to 89 million tons in 1980. Total U.S. coal production jumped, in the same period, from 776.3 million tons to a surprising 830 million tons. The take-a-number waiting lines at Hampton Roads and Bal-

COAL

timore are only the most well-publicized examples of the transportation infrastructure's inability to handle such sharp increases over such a short period of time. Other illustrations include:

—"Chinese fire drills" involving dump trucks and clam-shell shovels to load vessels at Philadelphia, because the aging coal pier there had been closed.

—The emergence of 15 different coal-buying delegations from Korea, all in this country at the same time and all professing to be ready to buy at least three million tons of coal. Interestingly, total U.S. coal exports to Korea just the year before amounted to less than a million tons.

—A trucking company jumping onto the coal bandwagon, going bust and leaving 60,000 frozen tons of coal sitting throughout the winter at an Eastern port.

—A stampede of new entries into coal brokering and production, not all of whom were reliable. "Brokers were buying coal from many different sources to fill a single vessel," recalls Ralph von dem Hagen of Conrail's open top hopper planning department. "And often two or three sources would be delayed or never come through at all. There would be a thousand (rail) cars at the port, but the vessel couldn't be loaded because you didn't have the right blend of coal for that shipment."

—A severe enough pinch on large bulk vessel availability (50,000 to 60,000 dwt ships) to more than double grain rates in the year and a half before the coal strike eased the supply crunch, according to Francis X. Bresnan, a chartering broker with Lavino Shipping in Philadelphia. Shippers of other bulk commodities also had to "pay the price" to get vessels, Bresnan asserts, and usually ended up settling for costlier smaller vessels.

Could anyone really have been better prepared? Publicly, the various parties plead that they were victims of a number of unusual, unforeseeable circumstances that happened to all come together at once. A little pressing, however, usually yields private admissions of: "Okay, we goofed—but so did everybody else."

The objective bottom line appears to be this: It is true that the sharpest political and social scientists would have been hard-pressed to foresee all of the world events that impacted on U.S. coal. But it is also true that the impetus for greater use of coal did not suddenly arise.

The first indications—and they were pretty clear—came in 1974, when the oil embargo told us that there had to be a better way than OPEC. Yet even with a good seven years' lead time, and the knowledge from the start that the U.S. would be a stable and continuous source of coal, when the crunch finally hit last year there was little evidence that anyone—railroads, ports, bulk charterers or coal companies—had taken time to do some strategic coal transportation planning.

This lack of foresight is of consequence to other shippers for two reasons. One, of course, is that some of them have already suffered as a result of the unpreparedness. The second is that shippers of all commodities can learn some lessons from the coal experience.

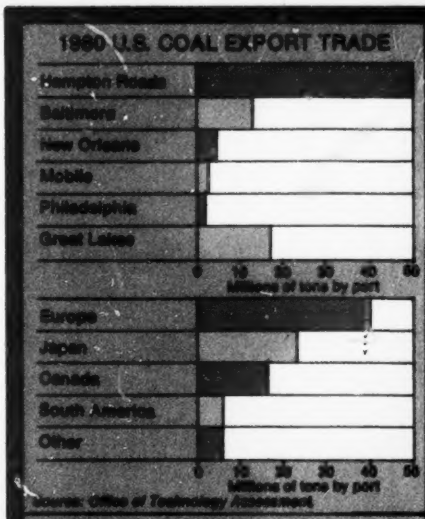
No matter whose fault the logjams ultimately were, it's clear that no one took any action until after the fact. For example, it wasn't until oil money from giants like Conoco flowed into the coffers of subsidiary coal companies that investments were made in new port facilities. And that came about only after the railroads proved unwilling to invest in coal until long-term contracts were signed, sealed and delivered.

Everyone saw the problem. But for a long time, cash and daring were the missing ingredients.

In retrospect, other shippers would be wise to take a cue from the coal boom and ask some tough questions (see box, p. 37) of both themselves and their carriers about the logistical challenges presented by heavy, sustained demand. What's that you say—it could never happen to you? And, if it does, you'll get plenty of warning? Listen to what E. Morgan Massey, president of A. T. Massey Coal Co., Inc. told a congressional subcommittee this summer:

"Forecasts before mid-1979 showed that the United States was not expected to enter the world steam coal market until 1985 or beyond, because U.S. coal was not price-competitive with the coal available in Poland, South Africa and Australia. It was assumed that supply from these competing countries would more than meet a steadily increasing world demand for steam coal and that the U.S. would continue to participate only marginally in the world market."

Massey then conceded: "1980 proved the forecaster wrong, as the overseas demand for United States steam coal became astounding."



Source: Office of Technology Assessment

RAILROADS SERVING PORTS

CITY OR AREA	RAILROAD
New York/Philadelphia	Conrail
Baltimore	CSX, Conrail
Hampton Roads	CSX, N&W
Morehead City	Southern
Wilmington	CSX
Savannah	Southern, CSX
Mobile	Southern
New Orleans	ICG, MoPac, SP, Southern
Houston/Galveston	BN (subsidiaries), Santa Fe
Los Angeles/Long Beach	UP
Stockton/Sacramento	WP, SP
Portland/Kalama Astoria/Bellingham	BN, UP
Superior, Wis.	BN

Increasing exports of U.S. steam coal promise to have far-reaching effects on most major U.S. ports and railroads. As the map shows, new facilities at existing coal ports and planned facilities dot every

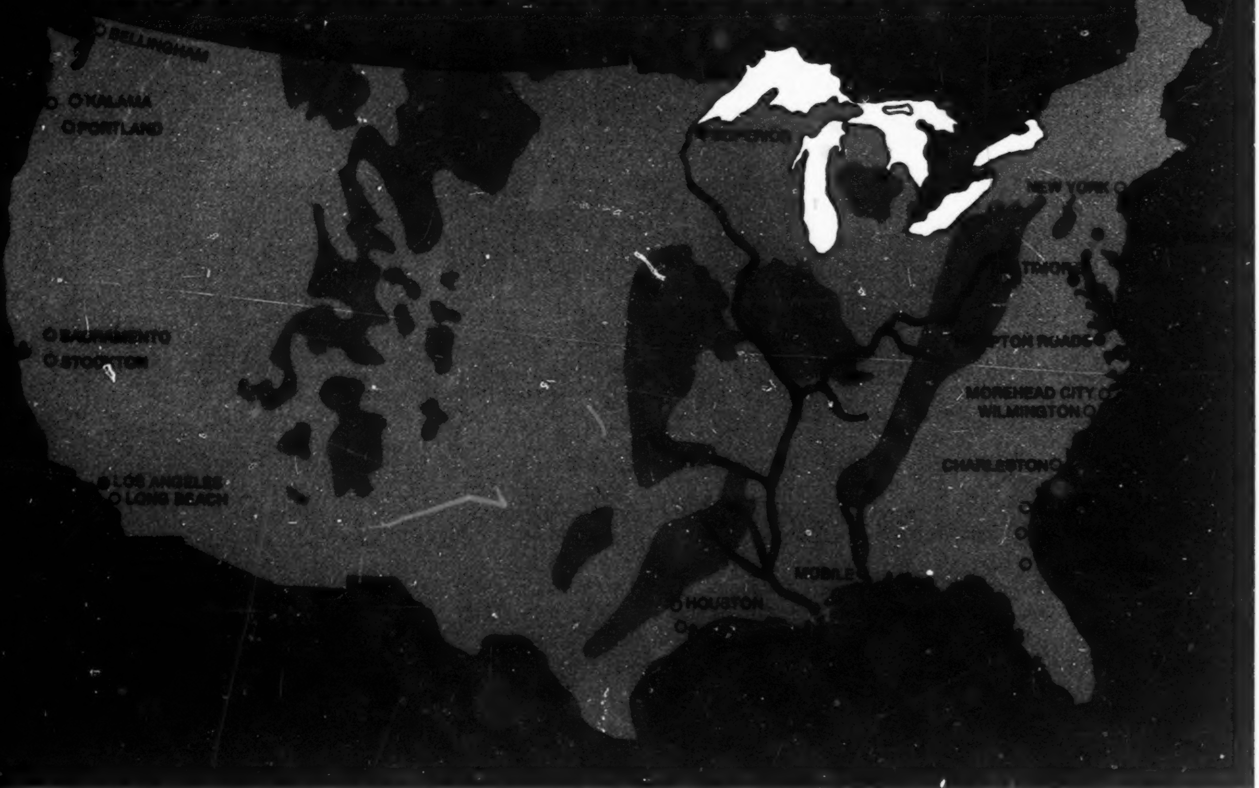
PART TWO: THE REACTION

Although the U.S. transportation system was caught short during the first two years of the coal boom, there's certainly no lack of activity—underway and planned—now that everyone's gearing up for the coal rush.

Skeptics still contend the boom may fade as fast as it came. Other diehards insist it's never been here at all. But the consensus is that coal movements, both export and domestic, will grow at phenomenal rates for at least the remainder of the decade, and quite possibly into the next century (see chart, p. 34).

"It's a blip, but it's a blip that's going to stay," Conrail's Ralph von dem Hagen says. "And now that it's happened, there should be consistent growth."

MAJOR U.S. COAL DEPOSITS AND EXPORT ROUTINGS



coast. Of greatest concern to shippers is the price tag for improvements, particularly the cost of dredging to allow large colliers into U.S. ports. On the rail side, the ICC is currently debating how high to set coal rates. While higher rates could become the basis for improving rail lines, increased revenues could also become a crutch that would allow the railroads to avoid aggressive marketing and pricing strategies for other traffic. As indicated, East Coast ports should continue to handle the bulk of export coal trade, with the majority of that traffic going to Europe.

Adds David L. Anderson, vice president-transportation service for Data Resources, Inc., which has done several major coal studies: "The boom is real, and it's going to be hard to keep up with demand over the next decade. I think we could go to 112 million tons (of exports) by 1990."

Certainly, the nation's ports and carriers think coal is here to stay. In fact, barely a port or railroad exists that hasn't decided to move into coal. And the fever is spreading to include barge, steamship and truck lines. Collectively, the price tag on the planned capital improvement and expansion projects of all these interests has swelled to rival the national debt.

A comprehensive review of all coal-induced changes would fill DISTRIBUTION's pages for the rest of the year. Besides, shippers have been subjected to enough publicity about what each port and each carrier is doing to handle coal.

But if non-coal shippers are to be fully able to weigh the impact of the coal boom on their individual shipping patterns, they should be aware of the following trends which together will act to significantly alter the U.S. transportation system:

1) Most major U.S. ports are drawing up plans to accommodate deep-draft coal ships by dredging their channels and harbors. Exactly who will foot the heavy bill for those improvements hasn't been ironed out, but there is a good chance that anyone using a port whose harbor has been dredged will be called on to help pay the freight. The "user fee" controversy is discussed in detail in Part Three of this report.

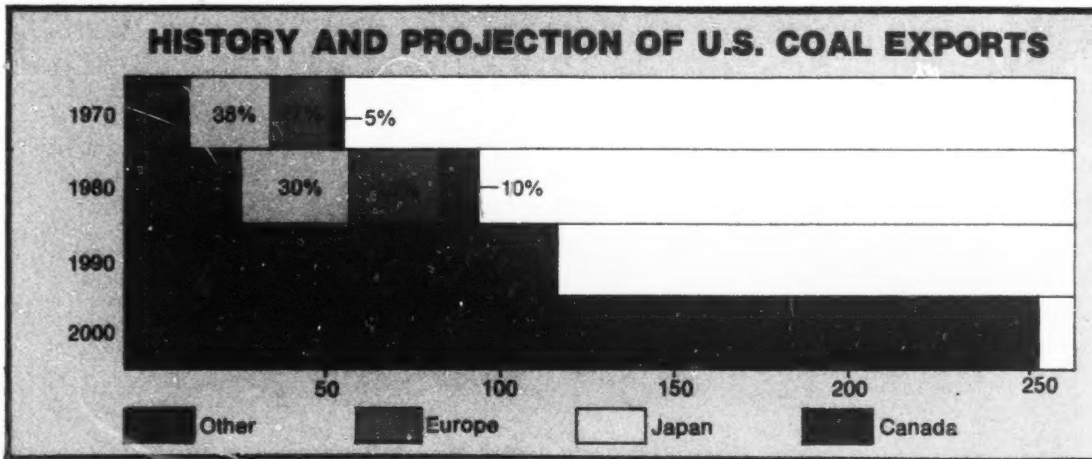
2) Historically, most coal export traffic has moved through East Coast ports. More coal moved through Hampton Roads last year than through all other U.S. ports combined (see chart, p. 32). Baltimore has always ranked a strong second, with Mobile, New Orleans, Philadelphia and various Great Lakes ports splitting up the few remaining percentage points.

As the boom progresses, these proportions aren't expected to shift significantly. But that doesn't mean the added traffic will be absorbed by the traditional coal ports, or that the potential for congestion and other snags will be confined to those ports. One percent of coal export traffic in 1990 figures to be a lot more sizable than one percent last year. Not only will new ports come into the picture, but those appearing to have just a small piece of the action will actuallly have their loaders full.

A telling remark comes from D. Ward Fuller, vice president of the American Steamship Co., the largest U.S.-flag carrier on the Great Lakes. "We aren't going to take coal away from the East or Gulf ports," Fuller says. "We're going to supplement their exports to the tune of 5 to 15 million tons a year."

Just about every other major U.S. port is whistling a similar tune. As a result, export coal movements will be more mammoth than ever, *everywhere.*

Hampton Roads expects to go from handling 51.8 million tons last year to 75 million tons in 1985. At the same time, Great Lake and Gulf ports



Is the coal boom real? According to industry experts, the National Coal Association and the federal government, it is. Projections for U.S. coal exports of both steam and metallurgical coal run to a staggering 255 million tons a year by the year 2000, according to government and industry. Growing demands for power in developing nations and a switch from oil to coal in industrialized nations should keep coal, as an export commodity, booming.

COAL

could be expanding their coal involvement at an eye-opening pace. Keep an eye, too, on the Port of New York—a late entry in the field that's now getting very serious. And, given time, West Coast ports like Long Beach, Los Angeles, Sacramento, Portland and Kalama, Wash., could be handling significant amounts of Western coal.

3) Coal is also leaving its mark on our inland waterway system. According to Richard L. Saunders, vice president of transportation with Ashland Coal, Inc., about half the current traffic on the Ohio River is coal, yet growth expectations are such that present tonnage will have to double by 1985. Whether the Ohio and its tributaries will be able to handle the extra volume, Saunders says, is questionable.

The increased coal traffic on the rivers also lends new significance to the familiar problem of the conditions of locks and dams. And, in turn, the pressing need for improvements to these facilities raises the specter of user fees being passed on to all shippers.

4) One of the biggest surprises about coal movements in the last two years was the extent to which the trucking industry was called upon to pick up the slack left by unprepared railroads and barge lines. Now that the other modes are getting their coal acts together, no one expects trucking to be a coal shipper's first, or only, choice.

Nonetheless, as noted by Bethlehem Steel Corp. vice president Thomas Church, trucks can be used profitably to make short hauls of limited quantities of coal. "Anthracite movements are a perfect example," Church says. "It's usually mined close to whoever's going to burn it."

Keeping in mind that the prospects for increased domestic coal traffic are every bit as great as those for export moves, one can expect trucking involvement in coal to continue to grow steadily through the remainder of the century. Observers feel owner operators will jump into coal as other markets go flat. In addition, a big boost to coal truckers could come if rail mergers and abandonments leave smaller coal producers without service.

5) The railroads have come full circle. In their heyday a century ago, they literally ran on coal. Now, while other fuels may make their steel wheels turn, coal is really what's making them go again.

Take, for example, the Burlington Northern, which currently ranks as the second-largest coal-hauling railroad in the U.S. Twelve years ago, according to the railroad's James Dickson, the BN was a "granger railroad that barely knew what a lump of coal looked like."

Coal tonnage on the BN soared from 43 million tons in 1976 to 100 million tons last year—all of it ticketed for *domestic* consumption. This year, the BN looks for 115 million tons of coal traffic; by 1985, it expects to be hauling 140 to 145 million tons.

The story's not much different at any other major railroad. Even the Missouri Pacific, which is not considered a "coal road," looks for growth from 18.8 million tons in 1976 and 32 million tons last year to 50 million tons by 1986.

Then there's Conrail. While those at the struggling railroad won't go so far as to anoint coal as their saviour, they do admit, as Ralph von dem Hagen says, that "coal has been the growth part of Conrail."

The railroads, especially the Eastern roads, are the most open about admitting they were caught short by coal. A typical comment comes from John E. Nall, vice president, coal, for the Family Lines:

"We weren't ready to handle coal in a timely fashion when the coal boom started," Nall admits. "We had a lot of catching up to do, and we've spent a lot of money."

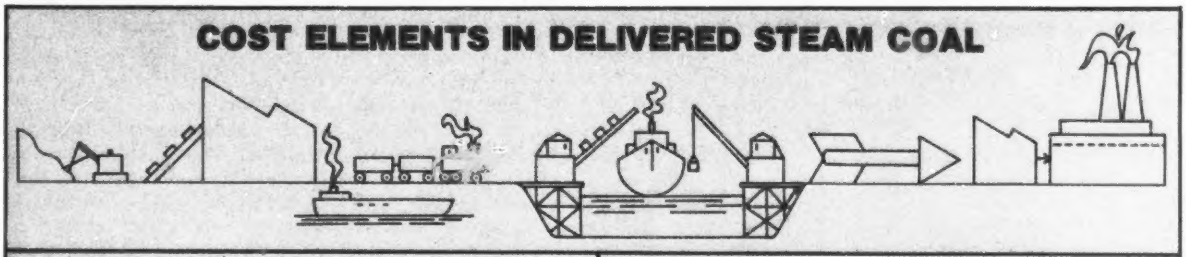
The railroads have caught up in a hurry, and they're now ready to ride coal into the 21st century.

6) If any of you shippers out there think coal slurry pipelines will soon take the heat off the other modes, don't count on it. While the technology for pipelines is there; and while pipelines are now being used on a limited basis, they face a major roadblock when it comes to acquiring hundreds of miles of needed rights-of-way.

A pipeline could save the cost of dredging a port, because it could be run out into deep water where mammoth colliers could be loaded without concern about draft. But the distance the pipeline would travel from mine to port is the thorny part of the problem. Slurry enthusiasts and the National Coal Assn. say that many property owners (who often are railroads competing for that coal) will not negotiate reasonable terms for the rights-of-way.

Negotiations between the railroads and would-be pipeline operators have become so bogged down that the coal companies are now pursuing a different tack—asking the federal government to grant pipeline interests the right of eminent domain.

COST ELEMENTS IN DELIVERED STEAM COAL



TO EUROPE	Mine-Mouth	Inland-Transportation	Ocean Transportation	Total Delivered
U.S. (East Coast)	$1.65	$0.35	$0.35	$2.35
Australia	1.00	0.15	1.05	2.20
South Africa	1.00	0.30	0.65	1.95

TO JAPAN	Mine-Mouth	Inland Transportation	Ocean Transportation	Total Delivered
U.S. (West Coast)	$1.10	$0.70	$0.45	$2.25
Australia	1.00	0.15	0.45	1.60
South Africa	1.00	0.30	0.65	1.95
Canada	1.35	0.50	0.40	2.25

Logistical problems in a shipper's own backyard ripple to far-flung export markets, as American coal shippers have been discovering. Because the steam coal boom was unexpected, transport inefficiencies in parts of our bulk transportation system have suddenly driven up the landed cost of U.S. steam coal. Old, ill-equipped port facilities have jammed our primary coal ports, adding high demurrage costs to the landed cost of U.S. steam coal.

PART THREE: THE EFFECT

Those involved with coal have a standard answer when asked if the increased tonnages of coal moving through the U.S. transportation system are having any effect on the movement of other goods.

"No, not at all," is the usual reply. "Coal moves on its own transportation system that's separate from the system used by other shippers."

On the surface, this is true. Rail lines from most mines are dedicated to coal. Cars used are generally supplied by the shipper or consignee; even if they have to be provided by the railroad, they are a special type (open top hoppers) not used by most other rail shippers. Once the coal gets rolling, it's usually as a unit-train movement that rarely mixes, on the track or in the yards, with other rail traffic.

If trucks get involved with coal movement, they, too, fall into a special-haul category that poses little conflict with the bulk of the trucking world.

At the ports, coal usually is handled in an area apart from that used for container traffic or for other bulk commodities. The equipment used is there specifically to handle coal; in fact, most coal companies are arranging with the railroads and ports to build terminals that will be used only for that company's coal movements.

Only barge movements of coal along inland waterways and chartered ocean movements of the coal once it has passed through the U.S. port and is on its way to foreign destinations really create the potential for any direct equipment or routing conflicts with other traffic. And even here, the effects of the conflicts are only felt by other bulk commodities (grain, ores, fertilizers, etc.) that use the same larger-capacity vessels.

These conflicts, of course, are very real to the shippers who run into them, and should not be dismissed offhandedly. The rate and vessel squeezes for bulk ocean charterers alluded to earlier promise to return once strike-plagued coal production picks up. Ten million new dwt of vessels will be coming out of the shipyards between now and the Fall of '82, but even this new capacity may not be enough if there is significant growth in world markets for grain and/or ore.

"The pinch is already starting to build up again," Lavino Shipping's Francis Bresnan contends. "All you need is two (bulk commodities) having strong demand, and you can almost demand any rate (for the use of a vessel). It (the squeeze on vessel availability) may all be a thing of the past in two or three years, but it's not a thing of the past now."

As long as congestion continues at ports, the pinch on vessel availability gets more severe. "Congestion at the ports reduces the number of ships available for world trade, whether it's coal or some other commodity," says Harold Rodriguez of Rodriguez and Sons, a New York chartering outfit. "Two years ago, a ship could make a roundtrip from the U.S. to Europe in 30 days or less. In the last year, coal ships were making that trip in 120 days, and 90 of those days were spent tied up at a port. Because of that, there is not only less tonnage available, but what is available can demand higher rates."

These problems notwithstanding, coal people are right when they contend that the majority of non-coal shippers will come into little daily contact with coal, even as coal traffic swells. But as coal's own autonomous transportation network grows to accommodate the extra volume, it will creep out like a water-starved vine and intertwine itself with the transportation system used by other shippers.

The most clinging example of this is the user fee question. The best way to expedite cost-competitive coal exports is to load bigger ships at U.S. ports. But to load bigger ships at our ports, expensive dredging projects must be undertaken to allow those ships to navigate the ports' channels and harbors. The question becomes: Should non-coal shippers bear the costs of these projects, even though coal shippers stand to benefit most from the increased draft?

Many non-coal shippers are already making it clear that they will fight the added costs that result from coal-inspired dredging.

"The ports are trying to spread the user charge's impact as broadly as possible, by making it seem that other shipping interests want 50- or 55-foot channels," says an executive with a large grain company. "But the grain industry does not need 55-foot channels on the Mississippi River, or anywhere else. And, if we can, we are going to refuse to pay for that development.

"Grain doesn't need a deep-draft vessel," this grain shipper contends. "Where can you unload 110,000 tons of grain anywhere in the world? Generally, North Atlantic ports serve European ports that can't even accommodate 30,000 tons of grain. You do have a couple of superports like Europort and the Port of Ghent, but they certainly can't handle all of the 100,000- and 110,000-dwt ships that are being talked about.

"A lot of these plans are so glib," this shipper sighs. "I fear we are going to make a national policy that will come back to haunt us."

The Reagan Administration wants the individual ports to bear all the costs of dredging and maintenance. The coal companies are pushing for a uniform 75 percent federal, 25 percent local split of the costs, with local interests recovering their expenses through a port fee. Even if the bulk of those fees are paid by coal shippers, however, port officials wonder if they can rightfully ask other users to chip in anything at all.

"Our current depth is 42 feet," notes Richard Lidinsky, director of traffic and national port affairs for the Port of Baltimore. "We are trying to get federal funds to go to 50 feet. Once we get that dredging done, though, can we ask a container ship operator whose ships have a draft of 32 feet to pay for a 50-foot channel?"

Lidinsky doesn't have an answer. Neither does the government, and it's unlikely it will for some time. If and when it comes up with one, it will probably be one of the following:

—A license fee levied on the operators of vessels. This fee could be uniform, or it could vary according to draft, weight or capacity.

—A cargo tax based on commodity, weight or value.

—A user fee levied every time a ship uses a dredged channel. This fee could be in the form of a flat rate, or it could be a graduated rate based on draft, deadweight tonnage or net registered tonnage.

—Direct contributions assessed states or port authorities, or assessed foreign companies or countries that benefit from dredging.

—A combination of fees, whereby port authorities would reimburse the federal government for dredging, and the ports would then collect needed funds by adding to existing user charges. Another alternative would have the federal government get its dredging outlays back directly through fees collected by the U.S. Customs Service or the Coast Guard.

At this point, the only thing that's clear is that user fees, of whatever stripe, threaten to add significantly to shippers' costs. And shippers who fail to make their voices heard on the issue will have little room to complain about the decision.

User fee headaches are facing inland waterway users, too. However, there is renewed urgency lent to that dispute as a result of increased coal traffic.

The Gulf promises to become a very attractive option to Midwestern and Appalachian coal shippers as long as the extra transportation costs involved are exceeded by congestion-related demurrage charges on the East Coast. But any additional river movement will only increase the strain on aging locks and dams at places like Gallipolis, Ohio, and on the Kanawha River in West Virginia.

The Reagan Administration wants to impose a fuel tax to help recover the costs of lock and dam improvements. Most barge shippers seem resigned that they will soon be paying such a tax, but they want to make sure they get something back in return.

"There is a feeling in the barge industry that if we have to pay a tax, we should have more to say about where improvements should be made," one shipper notes. Conceivably, then, a conflict could arise between what would be best for coal and what would be best for other river users.

Back on land, the coal vine can spread just as fast. As more and more coal is trucked over the nation's highways, other shippers could find themselves tangling with stepped-up erosion of already crumbling roads. And again, a "who should pay for repairs?" dispute could arise. Bethlehem Steel's Thomas Church reports that his company and others in Pennsylvania are already working with that state's Department of Transportation to try to make "a little more money available" for anticipated repairs that will be partly attributable to increased coal trucking.

And then there are the railroads, where coal is showing its best side. Although questions of accelerated deterioration to track can arise, and although you can find disgruntled sources like the fertilizer shipper quoted at the beginning of this article, most non-coal shippers praise coal and the changes it has brought to the railroads.

Here's just a sampling of some of the non-coal rail shippers' testimonials to King Coal:

—"If anything, our service on the Eastern roads that handle a lot of coal has improved in recent years. If coal is the reason for improvement in those railroads' physical plants and the resulting improved service we've

SHIPMENTS OF DRY BULK COMMODITIES BY BULK AND COMBINED CARRIERS[a]

	1978		1980 est.		1981 est.	
	Volume	Percent	Volume	Percent	Volume	Percent
Millions of tons						
Iron ore	256	31.5%	290	31.7%	275	29.3%
Grain	151	18.6	165	18.0	170	18.1
*Other	300	36.9	305	33.3	320	34.0
Subtotal	707	87.0	760	83.0	765	81.4
Coal	105	13.0	155	17.0	175	18.6
Total	812		915		940	
Billions of ton-miles						
Iron ore	1,284	31.4	1,460	30.7	1,400	28.3
Grain	865	21.1	1,010	21.2	1,070	21.7
* Other	1,446	35.4	1,475	31.1	1,550	31.4
Subtotal	3,595	87.9	3,945	83.0	4,020	81.4
Coal	494	12.1	810	17.0	920	18.6
Total	4,089		4,755		4,940	

[a] Only includes shipments on vessels greater than 18,000 dwt. Capacity of the fleet between 10,000 and 18,000 totaled about 11.5 million dwt in 1980.
*Other: phosphates, potash, scrap metal, coke
SOURCE: OSG Bulk Ships, Inc., New York, February 1981.

Coal exports have been taking up a growing number of bulk vessels, raising questions not only about ship availability but also about higher rates for other bulk commodities.

COST ELEMENTS IN DELIVERED STEAM COAL

In the end, only shippers themselves can determine the impacts—positive or negative—of the coal surge on their individual shipping patterns and on their companies. Doing so requires no more than a few phone calls and a little eye-to-the-future reflection. Here's a suggested "coal checklist" of what to ask whom, and what to think about:

✓ Ask all of your carriers—rail, barge, ocean *and* truck—about their current involvement with coal and about how much coal each expects to carry in the future. If coal will be traveling along rails or highways over which your traffic also moves, try to pin down the carrier on what the heavier volume might do to the condition of that track/road. Ask about transit times along those routes for *all* traffic. If your commodity requires similar equipment (cars, loaders, etc.) to that used for coal, check into each carrier's supply outlook. Will there be enough to go around? If not, who will get priority? If there isn't an equipment conflict, ask about each carrier's capital spending plans. If a lot of capital gets funneled into coal-related projects, will any be left over to serve your needs? Or, conversely, might you stand to benefit from coal-related improvements and innovations?

✓ Bulk ocean shippers who've earned rate breaks in the past by combining their freight with other shippers should check to see that larger bottoms aren't being taken from underneath you. Some grain shippers have already paid dearly because coal has taken the big ships.

✓ Then, of course, there's the all-important question of rates. Will coal be a big-enough breadwinner for your carrier to hold down your rates in the future? Or might your freight be expected to help pay the bill for coal-related capital improvements? To be sure, getting straight answers from your carriers on these questions won't be easy. But it can't hurt to ask.

✓ If you are an exporter *or* importer moving goods through a U.S. port, chances are you'll get hit with user fees to pay for coal-inspired dredging projects that will allow the ports' channels to accommodate larger vessels. First, find out what projects are in line for the ports you use—some require much less dredging than others, and some can do it at a much smaller cost. So at some ports, you stand to get socked less than at others. Second, make sure your input is heard at the ongoing Washington hearings that will decide which ports will be dredged and how the dredging costs will be recovered. Third, start checking out alternate ways to get around the ports that will hit you the hardest, or perhaps to get into ports that will not be tied up for coal.

✓ If your company relies heavily on a coal-fired utility for its power supply, get in touch with that utility's transportation department. Find out what transportation arrangements have been made for filling its future coal needs. Some manufacturers already are reporting alarming increases in utility rates that can be traced directly to unfavorable contract arrangements made between utilities, the railroads and/or the coal companies. Even those utilities that have contracted for what seems to be an inflation-proof rate may end up paying dearly because of escalation or maintenance clauses. In short, there is enough potential for surprise that every shipper dependent on coal-fired power would be wise to keep in close touch with their counterparts at those utilities. Who knows? You may be tipped off to something that will make you look downright clairvoyant to your own top management.

✓ Finally, it wouldn't do any harm to construct a "boom scenario" for your own product in the event it, too, takes off the way coal has. Project traffic volume growth of, say, 25% a year for the next five years. Would your carriers be able to handle the increase? If not, who could you turn to? What sort of strain would it put on your terminals or your warehouses? Or, if you're sure your product won't be growing in that way by any stretch of the imagination, suppose other products handled by your carriers suddenly become hot commodities. Would you still get the service you expect? The equipment you need? It's hard to believe that any forward-looking company would knock a distribution manager who used some spare time to prepare such scenarios. If nothing else, it will show you're looking ahead.

seen, then I can only say that increased coal traffic has been good for our part of the plastics industry."—J. R. O'Brien, transportation equipment manager, Northern Petrochemical Co.

—"Here, in the heart of coal country, and being served by major coal railroads, I can't, by any stretch of the imagination, attribute any service shortfalls we might have to those railroads' emphasis on coal. Even when motive power has been short, we have not seen boxcars sitting idle, in deference to coal cars. The railroads seem to be doing a good job of balancing service and equipment among their customers."—R. W. LaPointe, director of traffic services, Giant Eagle Foods, Pittsburgh.

—"I'm of the belief that the emphasis on coal has helped service to autos and auto parts. The railroads have had to improve their roadbeds more than they expected to handle coal unit-trains, and that upgrade alone has had a salutory effect on all shipments, coal or not."—Aden C. Adams, manager, transportation-automobiles, Ford Motor Co.

In addition to providing added capital that has been used to strengthen plant and service for *all* rail shippers, coal also seems to have given the railroads' marketing departments a swift boost into the 20th Century. If it wasn't for the boom, in fact, some shippers believe the railroads still might be sitting around wondering what to do with the Staggers Act.

"Coal has been a learning ground for a lot of railroad men in terms of contracts," notes the national transportation manager of a leading department store chain. "We deal in contracts every day with other transportation modes, but it's a new ball game for railroads. They were reluctant to enter into contracts, even under the Staggers Act, because it was foreign country, so to speak. Now, I see it coming loose. They've learned a lot (through coal), and they're bringing that expertise to us. They're initiating contract talks with us, and that's one real positive result of the emphasis on coal."

In addition to giving railroad marketers the opportunity to work out the kinks in concepts such as service contracts and unit trains, coal has also given them the courage to be more forceful in their dealings with shippers.

If they haven't been already, non-coal rail shippers can expect to be confronted eventually by the railroads' new coal-fired strategies and attitudes. And, while most of these shippers admit that so far coal has been good to them, some of them are expressing concern that in the long-term they may also be confronted by some coal-related shortcomings.

Bethlehem Steel's Thomas Church is concerned about potential traffic levels in the Northeast and Tidewater sections of the country. "I'm watching the development of all the East Coast coal piers," says Church, a coal shipper himself. "And I have to say I'm rather leery, in view of all the large quantities of all types of freight moving through the Northeast corridor, of the long-range effect.

"Particularly in the area south of Philadelphia, when you add up the increased coal moves and heavy passenger traffic, there could be some potential bottlenecks. Business levels there have been down and have provided additional space for coal movements to date. But if things pick up, and you're looking at a lot of additional coal, I can see some real congestion at places like the Baltimore tunnel."

Out West, the concern is not whether there will be enough room to go around, but rather if there will be enough equipment. "I've heard a lot of talk about car supply and power being fully adequate for years to come," notes Thomas Williamson, vice president-transportation, for AGRI Industries, an Iowa farmer co-op. "I'm not sure I agree. The possibility of a sudden surge in the economy and the re-entry of the Mexicans into our market in a big way could wipe out the current cushion. Then there might be some direct effect of all the capital the railroads have invested in coal equipment and service."

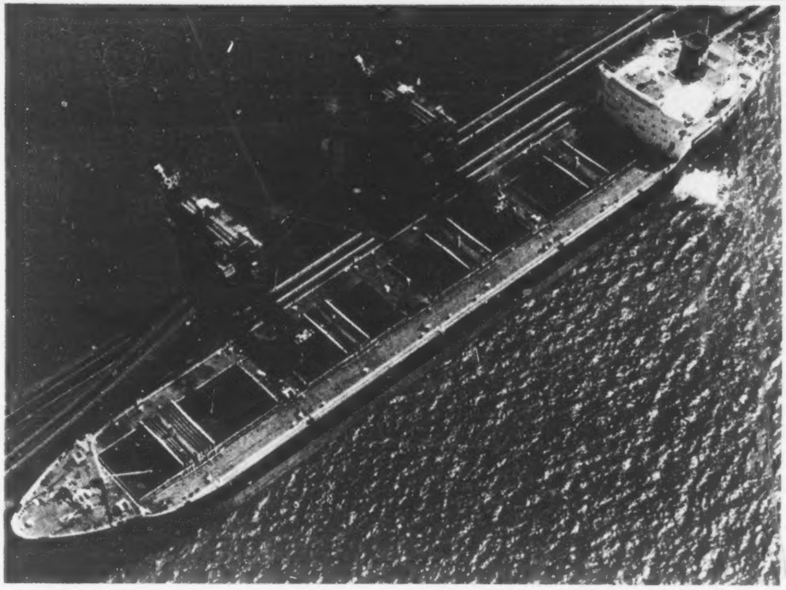
The railroads' answer to these concerns is pretty straightforward: Sorry, folks; like it or not, we're going to be heavy into coal.

"You might hear a canned goods shipper complain that we're putting capital into open-top hoppers rather than equipped box cars," admits Jerry Gobrecht, vice president, coal for the Chessie System. "But he has to understand that we're trying to put the money where it will do the most good for the railroad as a whole. We had good earnings in coal for the first three quarters of this year, and even though general merchandise traffic was way off, we had record earnings. By and large, if you've got coal on your railroad, you can make money."

Willard R. Clarkson, an Iowa rail consultant, states the current facts of rail life this way: "Coal is going to be there every day. Agricultural goods are here today and gone tomorrow with the harvest. You can't blame the railroads for committing financial strength to the business they'll be able to count on."

This new order could create significant movement in the railroads' rate structures that promises to impact on all shippers, according to Jim Heuer, manager of transportation planning at the Chicago-based consulting firm of A. T. Kearney, Inc.

"Historically, rates for coal, grain and other bulk commodities have tended to be below fully allocated (total) costs," Heuer asserts, "but above variable (incremental) costs. Manufactured goods have picked up the balance of the fixed costs that were not covered by bulk materials."



Over the last 25 years, however, manufactured goods traffic on the rails has declined in the face of truck competition. Those railroads planning to move sizably greater amounts of coal now need to be able to charge much more for those coal movements if they are to continue to recover all of their costs.

The ICC recognizes this need, Heuer reports, and is attempting to set reasonable rates for coal through Ex Parte 347, Sub 2. The outcome of that rulemaking will go a long way toward determining transportation costs for all shippers, Heuer believes.

"If the ICC allows coal to make good profits," he explains, "that will give the railroads the cash flow and bargaining power to make improvements on their lines. If, however, the commission holds rates down, improvements will not come as quickly and it puts pressure on other commodities to pick up a larger revenue share."

Actually, other shippers will probably lose either way. Even if their own rail rates survive the ICC ruling, the rates charged their companies by electric utilities will rise in accordance with increases in the cost of coal transportation.

"Shippers today are dealing with a railroad industry that hauled coal for many years at rates that didn't pay their way," agrees R. W. La Pointe of Giant Eagle Foods in Pittsburgh. "So shippers will be faced, under the railroads' new relative rate freedoms, with substantially higher transportation costs. It's a tangle. And at the heart of it all are the utilities. They simply say that if transportation costs are increased, they'll pass along the increases to the power-using public. And you suddenly have another big part of the economy involved in rail coal rates."

Indeed, some shippers who would appear to be watching the action from a safe distance say they've already become ensnared in this triangular trap. The director of planning for a major grocery chain in the Southwest, who ships almost entirely by truck, reports that he is being "murdered" by increases in electric utility rates. After doing a little detective work, he discovered that his city-owned, coal-fired utility had locked itself into a rail contract that is "running wild" in terms of escalation and maintenance costs.

Clearly, then, only the most isolated of shippers can hope to avoid having their distribution patterns touched in some way by the coal boom. For some, King Coal will have a decidedly negative impact on their equipment, rates and service; for others, increased coal traffic along their shipping lines will save and improve what would otherwise be unprofitable routes for their carriers.

Many shippers will be faced with new marketing strategies or confronted by additional fees and costs that can be directly traced to the increased demand for U.S. coal. And even those few shippers who may escape coal's impact on their own transportation could feel its presence through indirect cost increases passed on by coal-fired utilities.

In short, be it positive or negative, subtle or with the force of a sledgehammer, coal fallout will rain down eventually on every shipper. ■

LOOK WHO'S JOINED THE DISTRIBUTION CLUB

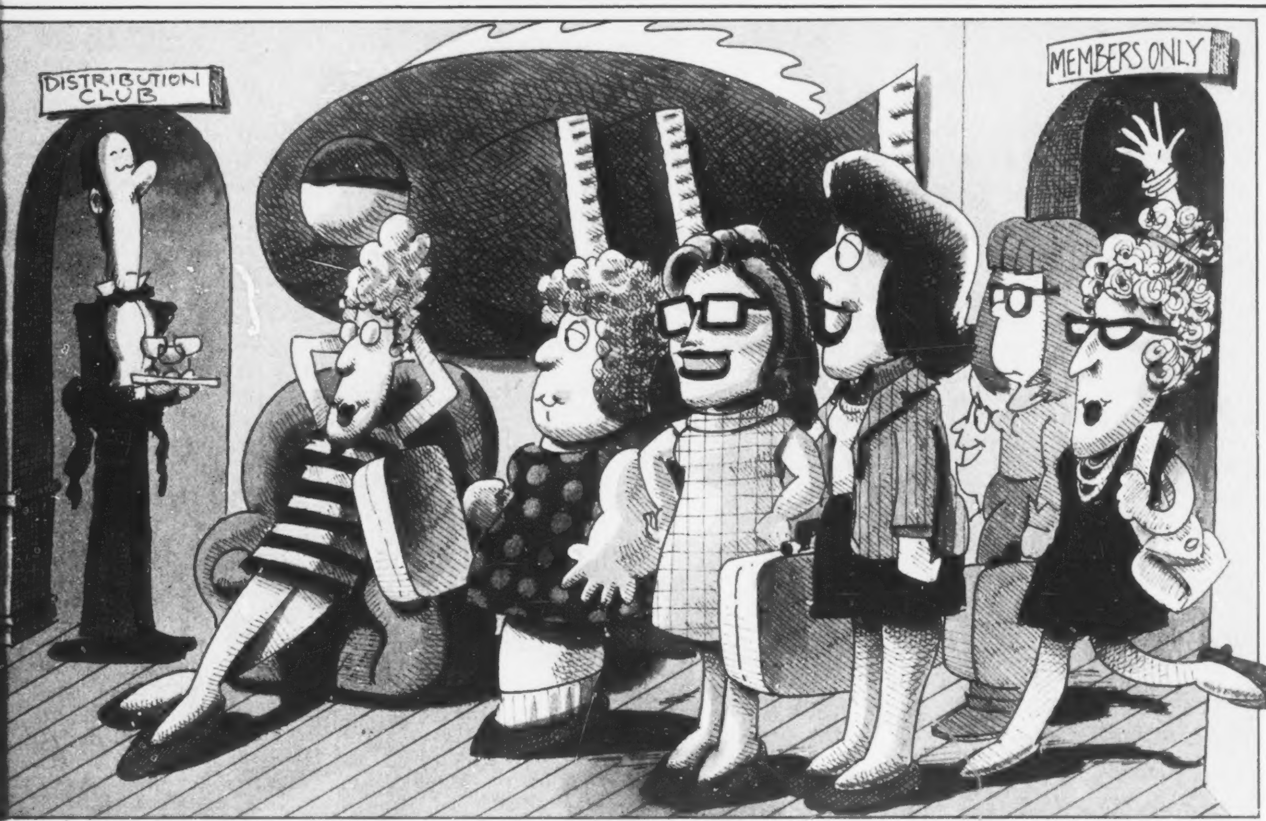
By JOE BARKS, Senior Associate Editor

Women have been part of distribution's rank and file for some time, but the top positions in the field have usually been off limits. In recent years, however, more companies have shown interest in recruiting female distribution professionals for management positions, and more women have shown a willingness to start—and continue—their careers down transportation's path. While many men seem to fall into distribution from other fields, more women are getting into it because they want to. There are still many prejudices they must overcome—particularly in their dealings with carriers—but it's clear that women must now be afforded all the privileges and respect due full-fledged, card-carrying members of the club.

Even before they've graduated, the recruiting tug-of-war has begun. Big names pull at them from around the country, enticing them with all-expense-paid visits during which they're wined and dined in the best All-American fashion. And when the talk turns to money, it's usually theirs for the asking.

Yet another scandal involving blue-chip "amateur" athletes? No—this time it's all legit. All this attention is being focused on college graduates setting out into the job market armed with advanced degrees in transportation and/or distribution. And the cream of this crop, in the eyes of the major corporations doing the recruiting, are those grads who also happen to be women.

"Recruiters are very hot on our graduates in general, and our women graduates in particular," reports Prof. Bob Lieb, head of the transportation department at Boston's Northeastern University. "We place as many women as we can crank out, at salaries that are mind-boggling. A lot of big firms are coming in here, flying women down to their headquarters, giving them a sound and light show, and then hiring them right off as distribution analysts."



Women in distribution are nothing new. But what's noteworthy this time around is the new-found status of many females in the field.

For a long time, most females in transportation were relegated to rank-and-file positions—traffic clerks, rate analysts, dispatchers, etc. The level where the big decisions—and the big money—was to be made remained off limits to all but the most exceptional women.

Now, while no one's ready to claim women have taken over the club, or even to suggest that they've moved in on a totally equal basis, it's clear that a significant number have broken through the barriers that used to bar them from distribution's upper echelons.

Professor Lieb's testimony to intense corporate interest in new, female, transportation school graduates is just one example of the long way women have come; other examples come from the membership rolls of the field's most prominent trade associations.

"A significant number of women have been accepted in physical distribution *management* positions," reports George Gecowets, vice president/executive director of the National Council of Physical Distribution Management (NCPDM). As proof, he notes that eight percent of the latest batch of members accepted by the NCPDM were women, and that local NCPDM roundtables include increasing numbers of female officers.

From other associations, the message is the same: There are more women in more managerial positions at more companies. There's even a new trade group founded by and primarily for women in transportation (see box, p. 46).

A scan of all these groups' membership rolls bears out the trend. Companies with females in management positions within their distribution departments include: Dow Chemical, Shell Chemical, Mobil Oil, Du Pont, FMC, Stokely-Van Camp, K Mart, GAF, Dreyfus Corp., Digital Equipment, Combustion Engineering, Houghton Mifflin, Ciba-Geigy, Upjohn, Personal Products Co., and Maindenform, Inc.

These women executives' titles include: traffic manager; superintendent of materials management; manager, corporate rate negotiations; manager, regulatory affairs; distribution analyst; distribution engineer; international distribution manager; manager, customer service; director of operations; and director of physical distribution.

From the men who have been working with these new members of the club comes nothing but praise for their performance. "I look at the competence of the individual—not the sex," reports J. Robert Morton, vice president of corporate transportation for Combustion Engineering, Inc. "We have several most satisfactory female transportation people. They do a great job."

Adds P. L. Rakowski, traffic manager for Foster Wheeler Corp. in Livingston, N.J.: "I find it encouraging to see more women enter the field. They significantly contribute a new aspect to the profession."

Then there's this comment from the transportation planning manager at a major publishing house: "Many old-timers still refuse to recognize women as equals. Our experience has been that they are as capable, and may even work harder to prove themselves. Carriers now respect our female planners."

One of the reasons it may appear that women are working harder is that distribution is more likely to be their *chosen* field, rather than one into which they may have fallen, stumbled, slid or been unceremoniously dumped. "Traditionally, it's been a male-dominated field into which many men have been dragged kicking and screaming," says Northeastern's Prof. Lieb. "And it

WOMEN CONTINUED

never even appeared to be a career option for women."

Now, however, the profession has taken on vast new significance within the corporate structure (DISTRIBUTION, April, p. 34), and distribution is no longer considered a responsibility that just anyone can handle. Companies are actively seeking out transportation-school graduates, and showing an interest in developing full-fledged careers for the new people once they've come on board.

In addition, Prof. Lieb believes, "Many of these companies are more than a little sensitive about their chauvinistic pasts." Thus the opportunities in the field are especially good for women, and plenty of astute females are charging in the now wide-open door.

Beware of tokenism

"Because of the 'minority hiring' phenomenon, a woman trained in distribution has a wide-open opportunity to enter and advance in distribution," agrees James J. Paule, traffic manager for Spangler Candy Co. in Bryan, OH. "The field itself is short of trained individuals and a young woman would be wise to look into the opportunities it offers."

Words like "sensitivity" and "minority hiring" smack of tokenism, however—and indeed, such a danger is very real. Sixty percent of those completing DISTRIBUTION's April DIALOGUE card mini-survey about women in distribution agreed that "there are many instances of tokenism with regard to women in distribution." More than a few respondents went on to tell us about specific instances they had run into, or that, in many cases, involved their own situations.

"My company has a lot of government contracts, so I feel I was hired because of compulsory minority hiring quotas," wrote Rae Weber, a freight administrator with Sundstrand Aviation in Rockford, Ill. "It took six to eight months to gain the cooperation and respect of the majority of the men I deal with."

The results of that mini-survey also revealed that females in distribution still face many other bias-related struggles with regard to pay, job freedoms, and advancement both within and beyond distribution management. (see charts, p. 47). A breakdown of the results and comments according to the sex of the respondents also showed that a noteworthy measure of sexual friction still exists within distribution's ranks (see "Battle of the Sexes" box, p. 45).

Nonetheless, it's agreed that the biggest challenges confronting women in distribution these days exist outside their own companies. A whopping 75 percent of the survey respondents—male and female—agreed that "carrier representatives deal differently with female distribution executives than they do with their male counterparts."

Kay Ketsis has been dealing with carriers for over ten years now, during a distribution career that has seen her ship products around the world for a French manufacturer, a major U.S. textile mill, and her current employer, GAF Corp. Currently manager of international traffic for the diversified New York giant, Ketsis wonders if carriers' first reaction to her will ever change.

"I'm moving the type and quantity of freight where I have to go pretty high up, beyond sales reps to the top of (the carrier's) hierarchy," Ketsis says. "So I hardly ever find anybody other than a male (on the carrier side of the negotiations).

"Even at this level, sometimes their first reaction is to have a tendency not to take you seriously," Ketsis reports. "But after we really get involved in the business, and I show I really know what I'm talking about, they stop staring at me. And if they don't, I know how to play their game. Either way nine times out ot ten I get what I want.

"Overall, I don't derive any benefits in my job because of my sex," Ketsis concludes. "But on the other hand, I've never found it a handicap."

Other female distribution professionals, however, disagree. Some, like Sari Schonfeld, distribution manager for Darworth Co., Avon, Conn. feel that "often the uniqueness of being female in a male profession is an advantage."

"The comments I get from the carriers I deal with, who are mostly men and mostly young," Schonfeld explains, "leads me to believe that it's refreshing for them to deal with a woman. As a result, I think I sometimes get better service from them."

Then there are those women who feel they will always receive inferior treatment from their carriers, no matter what they do. But whatever the end result, all agree that the big difference remains the way male carrier representatives put females under the microscope before dealing with them in any way.

"It's a constant struggle to prove credentials and command respect," Schonfeld admits.

Will women in distribution always have to prove their credentials before getting down to business with carriers? Probably not. As noted by Gary Byrnes, manager of traffic services for Olin Ski Co. in Middletown, Conn., one assurance that such games will cease in the future is that "the increase in female carrier representatives has been at least as dramatic (as the rise in female distribution managers)." Albert Kley, a traffic manager for Rubbermaid Inc. in Wooster, OH, confirms this trend: "Three out of 50 sales reps who call on us now are women," Kley reports. "Thirty-plus years ago, it was one in a thousand!"

Future un-shock

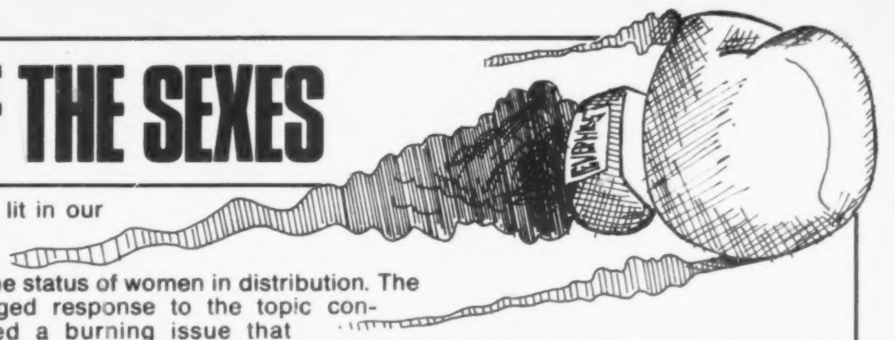
Beyond that, most observers feel it's only a matter of time before the shock wears off and slow-to-adapt male carriers realize women are in distribution to stay.

"While I believe (things may be difficult for women now), I also feel strongly that they will not be 10 years from now," says T. P. Hayes (a male), traffic manager of Nordson Corp. in Amherst, OH. "The next generation will be more oriented to a coeducational lifestyle."

Adds Wayne W. Vossen, manager of distribution systems for Economics Laboratories in St. Paul, Minn.: "I feel our field is progressing toward more professional attitudes which will allow females to enjoy the advancement and recognition their work deserves."

Some already are. "As a female who entered distribution with a chemistry and information systems background, I find myself treated with respect and given every oppor-

BATTLE OF THE SEXES



The fire for this article was lit in our April issue, when our DIALOGUE card asked readers a few questions about the status of women in distribution. The overwhelming, highly charged response to the topic convinced us we'd discovered a burning issue that needed to be kindled further. Particularly striking was the split that developed according to the gender of those responding. Not only were there significant disparities in the two sexes' answers to the card's mini-survey (see charts, p. 47), the comments section soon became the site of a handwritten "battle of the sexes." Which side wielded the mightier pens? You be the judge:

MALE CORNER

"Most executives I have dealt with have come up through the ranks, with all sorts of physical labor behind them. It is difficult to reacquire the same instincts from a typewriter/office clerical background. Two college graduates, one female and one male, will start from different parts of the organization and the more physically experienced will be the more aggressive and decisive."
Al Thuotte
Warehouse Manager
Donallco Inc.
N. Hollywood, Calif.

"Even today, with the new-found freedoms in distribution, I find women in conflict vs. traditional wants and needs."
Will Gray
Traffic Manager
Union Carbide Corp.
Hahnville, La.

"The first female in any position will be observed by all and must be aware of this. One bad experience will leave a lasting impression on fellow workers for years."
G. R. Shank
Operations Manager
Stull Power Equip. Co.
Beltsville, Md.

"Even though we live in an 'enlightened' age, employers still prefer the male image in positions of authority. It's still a man's world and always will be."
J. D. Brunskole
Traffic Manager
Columbia Iron & Metal
Cleveland

"I'm for female equality to a point. I draw the line at sexual favoritism. Once a female gets into distribution, the charm comes out and favoritism starts. If something is not to their liking the cries and screams of female liberation and equality start up. It's gone too far. We're in the era of sexual favoritism."
Robert Jacques
Traffic Coordinator
Olin Ski Co.
Middletown, Conn.

"It seems to me people miss the point as far as advancement in any field for a minority group (is concerned). Typically these groups don't initially possess the required experience or education to step into an executive position. These prerequisites take time to obtain."
Anonymous
Illinois

"It's about time women in general began to stand on their own two feet. I know of very few people who were handed a position they didn't deserve. It's about time women realized it's 1981!"
Wayne Mieluch
Warehouse Manager
INA Bearing Co., Inc.
Bensalem, Pa.

FEMALE CORNER

"As a 22-year-old traffic manager for a three-plant company shipping 25 million tons a year I am treated like a secretary at the office and in traffic functions and paid less than the previous TM, who was a male."
Anonymous
Wisconsin

"With a B.S. in (1) Marketing and (2) Transportation/Distribution Management from Syracuse Univ. and two years' experience in motor, rail, piggyback rates and routes, as well as special shipping programs, consolidations, etc., one would think there would be more jobs available besides rate clerks, at salaries over $16K. It's easy to get hired but more difficult to move up."
Lisa Fedorochko
Distribution Analyst
J.C. Penney Co., Inc.
New York

"I find that what I have to say is taken lightly. I'm considered an advanced clerical instead of the head of a department. Leave the detail to me but don't give me the tools needed (to determine) the best rates and routes."
Corporate Traffic
Manager
Kansas

"Carrier representatives don't take female distribution executives seriously—they just suffer us."
Anonymous
Pennsylvania

*"I worked at (company name withheld) as an Import Traffic Manager for 5½ years. When I resigned my position last year, I was offered $5,000 more **per year—thus I was vastly underpaid!**"*
Name withheld upon
request
Chicago

"I . . . work hand in hand with one other male, who will retire in five or six years. I will take his place at that time. He makes considerably more than I do, and I do the entire job when he goes on his annual six weeks (of) vacation/seminars, etc. Carriers tend to feel I don't know enough for them to talk to me, and I've been trained for the past nine years."
No name or location given

"I have noticed that females have to work twice as hard to prove themselves and then after proving themselves people are waiting for them to fail."
Anonymous
Colorado

"I am in an executive position but many treat me as if I was a clerk who must be explained to as a child. This treatment reflects on down so that it is twice as difficult to exert authority as an executive, but I am still expected to deliver as one."
No name or location given

tunity to advance," says Susan C. Saltzman, a staff distribution engineer for DuPont.

With time, most agree, more women will attest to such peaceful co-existence. "The myth of discrimination against women is melting," says Daniel J. Sullivan, Jr., regional operations manager for CBS Records in Terre Haute, Ind. "Those of us in management are responsible for getting the job done. We look for the best people to do it. If a woman is a better candidate for the job, she gets it."

Adds M. C. Fashingbauer (a female), a distribution supervisor at 3M Co. in St. Paul: "Women are newer to the field of distribution than to other fields such as marketing and administration. As our experience levels increase, so will our responsibilities and authority."

But even now, enough women have already made it in the field that it's time to establish new rules here at the distribution club: The front entrance can be used by everyone. No cigar smoking in the dining room. And no nude routing.

NOT FOR MEN OR WOMEN ONLY

Confirmation that women are now full-fledged members of the distribution "fraternity" comes from the membership rolls of the various transportation associations. All of the major groups report significantly greater female participation in recent years.

"Our female attendance has grown from 10 percent in 1974 to 50 percent in 1981," reports William J. Augello, executive director of the Shippers National Freight Claims Council, Inc. "Women are infiltrating the claims field in record numbers, and they are making outstanding claims professionals."

Officials of the NIT League, NCPDM, NASSTRAC, AST&T and other shipper groups also say their ranks are being joined by droves of able women.

But the biggest success story is that of the first association founded by and primarily for women in the transportation field. The Women's Transportation Seminar (WTS) was started in Washington, D.C. in 1977 by a group of 40 women who saw a need for a "network to provide a means for personal advancement as well as industry recognition." Just four years later, WTS boasts a national membership of 700 women *and men*. It now has several local chapters in addition to its 400-member parent chapter in Washington.

WTS draws most of its members from the ranks of government and trade associations. In the past, it has had a decided slant toward consumer and public transportation issues. However, freight-oriented professionals, both male and female, would be wise to keep tabs on its activities for two reasons.

First, WTS has already developed a reputation for attracting the cream of speakers to its events. Secondly, WTS officials say they are now making an effort to branch out more into freight-related areas and to attract more members from within private shipping circles.

The increased emphasis on the private sector is evidenced by the program planned for the second annual WTS national convention, to be held September 14-15 in Philadelphia. To help develop the convention's overall theme of "The Transportation Industry Operating In A Free Market," the following seminar topics have been scheduled: railroad mergers; railroad pricing options; the challenge of export coal; deregulation's effect on intermodalism; how to pay for needed highway improvements; and business opportunities within transportation.

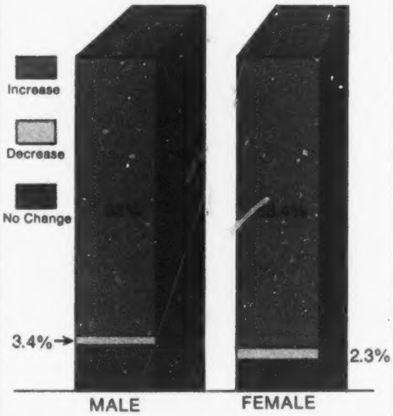
Scheduled speakers include top officials from the Federal Railway Administration, Federal Highway Administration, American Trucking Associations, National Coal Assn., Conrail, Chessie System, Virginia Port Authority, Port Authority of New Jersey and New York, IU International, Sun Carriers, Inc., and Emery Air Freight. Secretary of Transportation Drew Lewis has been invited to deliver the convention's keynote address, but he has not yet responded.

For further information on the Philadelphia Convention, which is open to non-members, male and female, contact Ursula Siebeneich at Conrail, Six Penn Center, Philadelphia, Pa. 19104, (215) 977-4350. For WTS membership information, contact the Women's Transportation Seminar, P.O. Box 23314, Washington, D.C. 20024.

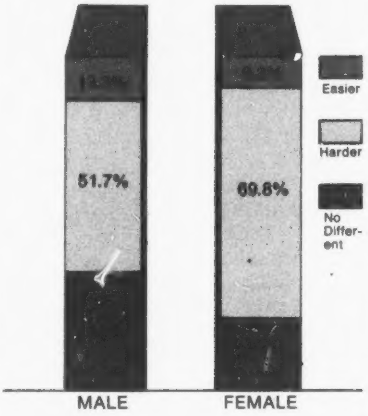
WHAT'S IT LIKE TO BE A WOMAN IN DISTRIBUTION?

(Reader responses, by sex, to questions posed in our April issue)

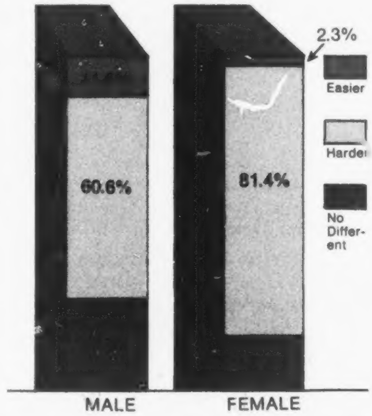
In the past two years, I have noticed an increase/a decrease/no change in the number of women in distribution.



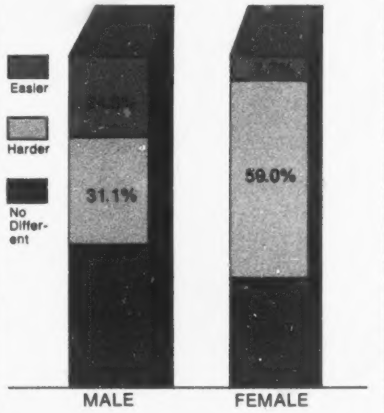
It is easier/harder/no different for a woman trying to enter distribution than it is for a man.



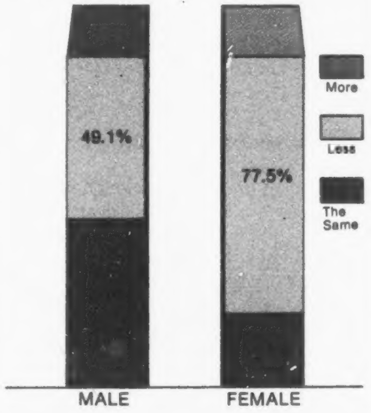
It is easier/harder/no different for a woman trying to advance within distribution than it is for a man.



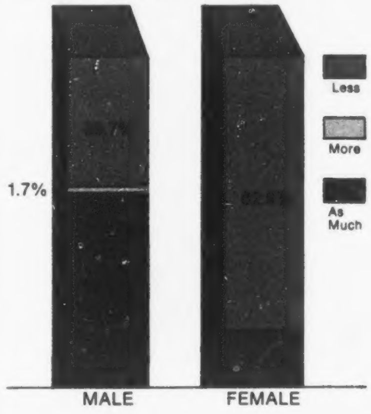
It is easier/harder/no different for a woman trying to advance out of distribution than it is for a man.



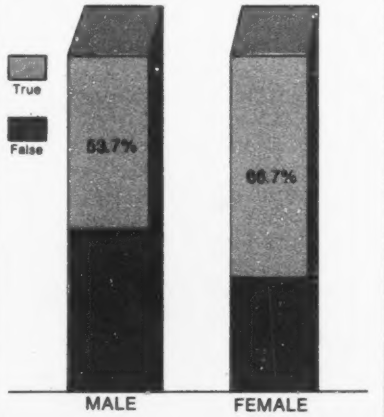
A female distribution executive is usually paid more than/less than/the same as a comparable positioned male distribution executive.



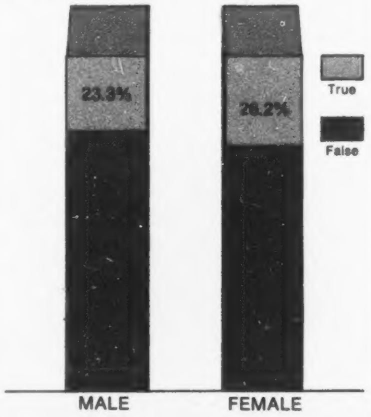
A female distribution executive usually has less/more/as much freedom to travel, institute change, exercise authority, etc. as a comparably positioned male.



True or false: There are many instances of tokenism with regard to women in distribution.



True or false: A female distribution executive is more likely to be subjected to sexual harassment than female executives in other fields.



True or false: Carrier representatives deal differently with female distribution executives than with male distribution executives.